



Clear answers for real benefits.



2012 Annual Report





Customer testimonials are the common thread of this year's annual report to illustrate the concrete solutions we provide every day. These true stories were told first-hand and collected by the colleagues who worked with them to offer real benefits.

Each story lends an authentic voice to how we are having a positive impact on our stakeholders. We are making a difference by recognizing everyday challenges and opportunities, and by contributing to the economic, social and cultural well-being of the communities we serve.

This report's creative concept reflects our commitment by displaying two pieces that fit together. This represents the union between the real-life needs of our clients and the practical solutions that we offer.

Above all, we believe that being a commercial bank means engaging in meaningful dialogue with those with whom we come into contact. This enables us to provide simple, quick and effective responses that perfectly meet customer needs.

Inside you will find some of these stories. We hope the next one will be yours.





PROTECTION

Supporting communities in critical times

“After one of our town’s largest employers closed its doors, our local communities went through a very tough time. UniCredit worked closely with government officials on an innovative initiative that helped those who had lost their jobs, like me, gain prompt access to unemployment benefits. The bank quickly facilitated funding for entitlements, protecting families from collapse.”

Franco F., customer of UniCredit in Italy



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Supervisory Board, Board of Directors

From January 1, 2012 to December 31, 2012 the membership of the Management Board was as follows:

Chairman:	Jozef Barta	(until 30. 11. 2012)
	Ing. Miroslav Štokendl	(from 1. 12. 2012)
Vice-Chairman:	Mag. Franz Wolfger	
Members:	Ing. Miroslav Štokendl	(until 30. 11. 2012)
	RNDr. Zuzana Žemlová	
	Ing. Monika Kohútová, MBA	

From January 1, 2011 to December 31, 2012 the membership of the Supervisory Board was as follows:

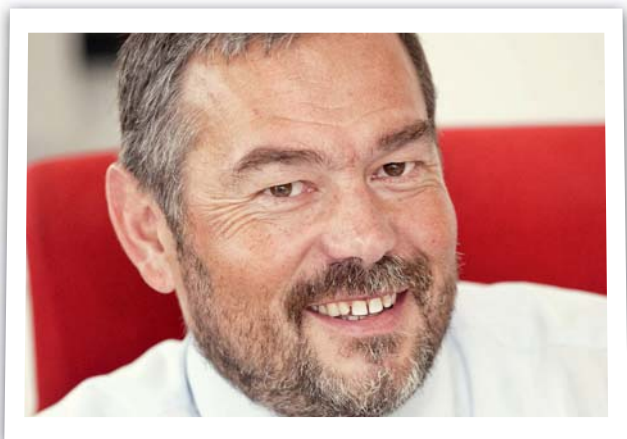
Chairman:	Heinz Meidlinger	
Vice-Chairman:	Gerhard Deschkan	(until 25. 3. 2012)
Members:	Claudio Cesario	(until 23. 4. 2012)
	Alberto Devoto	
	Alessio Pomasan	
	Ing. Karol Zimmer	(until 23. 4. 2012)
	Ing. Viera Durajová	
	Ing. Jaroslav Hazlinger	
	Ing. Jana Szászová	
	Ing. Slávka Jánošíková, PhD.	(from 23. 4. 2012)
	Simone Marcucci	(from 23. 4. 2012)
	Gerhard Deschkan	(from 23. 4. 2012)

Management

As of December 31, 2012 the management of UniCredit Bank Slovakia a. s. operated in the following structure:

Chief Executive Officer	Jozef Barta Ing. Miroslav Štokendl	(until 30. 11. 2012) (from 1. 12. 2012)
Internal Audit Division	Christian Hamberger	
Bank Secretariat Compliance Officer Human Resources Division	PhDr. Rudolf Hanuljak JUDr. Mário Tuchscher Svetlana Pančenko Silvia Cassano	(until 31. 8. 2012) (from 1. 9. 2012)
Identity and Communications	Ing. Martina Fatyková Ing. Alena Klúčiková	(until 9. 11. 2012) (from 10. 11. 2012)
Legal and Compliance Division Market Research & Strategy	Mgr. Vladimír Nagy MPA Vladimír Zlacký Ing. Lubomír Koršňák	(until 25. 5. 2012) (from 1. 6. 2012)
Private Banking Corporate and Investment Banking Division	Raymond Kopka Ing. Miroslav Štokendl	
Structured Finance and Large Corporates	Ing. Jaroslav Habo	
Mid Corporates	Ing. František Doležal	
Global Transaction Banking	Ing. Roland Viskupič	
Markets	MVDr. Martin Salaj Ing. Tomáš Perďoch	(until 29. 2. 2012) (from 1. 3. 2012)
Financial Division	Mag. Franz Wolfger	
Accounting	Ing. Viera Durajová	
Planning and Controlling	Mgr. Lubomír Solčanský	
Global Banking Services Division	JUDr. Marián Áč	
Loan Administration	Ing. Miroslav Kešelák	
Bank Operations	Ing. Ján Grujbár	(until 31. 8. 2012)
Change Management and ICT Support	Ing. Ľuboslava Uramová Ing. Ján Grujbár	(until 31. 8. 2012) (from 1. 9. 2012)
Organization and Logistics	Ing. Tomáš Haramia	
Retail Division	Ing. Monika Kohútová, MBA	
Alternative Channels	Ing. Ľuboš Kováčik	
Segments and Products	Ing. Marian Burian	
Retail Sales and Services	Ing. Anna Krčmáriková	
Risk Management Division	RNDr. Zuzana Žemlová	
Special Credit	JUDr. Marek Melíšek	
Strategic Credit Risk Management	Steffen Kuehnle Ing. Mgr. František Zavadil	(until 30. 9. 2012) (from 1. 10. 2012)
Underwriting	Ing. Miroslav Gálus	

Opinion of the Supervisory Board



HEINZ MEIDLINGER

Chairman of the Supervisory Board

“ Despite the negative impact of development in external environment, in 2012 UniCredit Bank increased its market share. ”

Dear shareholders,

despite the negative impact of development in external environment, in 2012 UniCredit Bank grew in the volume of loans to individuals, thus increasing its market share. The total volume of client deposits has grown by 15.1 % yoy and thus UniCredit Bank has succeeded to improve its liquidity position. The Loans to Stable Funds Ratio (LSFR) has dropped to 94.6 %, while according to the NBS recommendation it should be below 110 %. In terms of loans, the bank has grown in the loans to individuals segment by 24.4 %, in corporate banking it has grown especially in the Mid segment by 9.3 %.

Successful we consider the growth in new housing loans (+ approx. 25 %) and consumer loans (+ approx. 50 %). As of December 31, 2012 the registered capital of UniCredit Bank Slovakia a. s. was in the amount of EUR 235 492 694.26, which represents 38 353 859 pieces of registered shares in book entry form with the nominal value of EUR 6.14 per share. During 2012 the bank's business strategy implementation and business activities management were actively inspected by the Supervisory Board in compliance with the legislation applicable in Slovak Republic, the Articles of Association of the bank and in close cooperation with the Internal Audit Division. The Supervisory Board was regularly informed during its 2012 meetings about the financial results of the bank and about the credit portfolio risk development. At the regular meetings, the Audit Committee, being the Supervisory Board's advisory body, reported to the Supervisory Board on its activities, providing also appropriate recommendations.

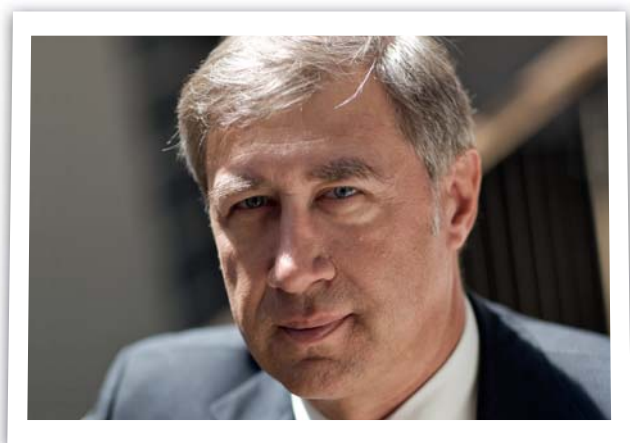
The Audit Committee was ensuring that the Management Board reacted to the internal and external auditors' recommendations. All the same it was ensuring that the Supervisory Board knew about the issues possibly having substantial impact on the financial situation or business events of the bank, enhancing clear communication among internal audit, external auditors and the Supervisory Board. The Supervisory Board, based on its activity, hereby confirms that the accounting books and accounting documents of UniCredit Bank Slovakia a. s. were kept in compliance with the law, the Articles of Association and internal regulations of the bank. In the opinion of the Supervisory Board, the financial statements for the year 2012 present fairly the financial situation and results of the bank, which was also affirmed by the opinion of KPMG, the external auditor.

The Supervisory Board certifies that according to 2012 financial statements of the books, the bank generated a net profit of EUR 15 601 841.97 according to International Financial Reporting Standards. The Supervisory Board consents to the proposal of the Management Board for the 2012 net profit distribution and recommends its approval.

A handwritten signature in black ink that reads "Heinz Meidlinger".

Heinz Meidlinger
Chairman of the Supervisory Board

Foreword of the Chairman of the Board of Directors and CEO



MIROSLAV ŠTORKENDL

Chairman of the Management Board and CEO

“ If we look at the growth of loan and deposit volumes, which represent the results of concrete business activities of our sales people, the situation is very positive. ”

Dear shareholders,

2012 was one of the tougher years for the Slovak banking sector. The results of this year were significantly affected especially by two external factors – introduction of the bank levy in Slovakia and the historically lowest interest rates in the eurozone. In the second half of the year, lending to entrepreneurs was influenced also by slowing economy and lower investment activity of domestic companies.

As a consequence of the negative impact of the external environment development, our net profit after taxation dropped to the half of previous year. We managed to partly eliminate these external factors thanks to our business activities in lending to individuals and mid-sized companies as well as thanks to several large transactions in the segment of Large Corporates.

Especially if we look at the growth of loan and deposit volumes, which represent the results of concrete business activities of our sales people, the situation is very positive.

The bank managed to increase its market share in deposits, thus improving its liquidity position. The loan-to-stable-funds ratio decreased to 94.6 % - according to the NBS recommendation, it should be lower than 110 %.

Total volume of customer deposits increased by 15.1 % yoy (to

EUR 2.8 billion). The bank considerably increased the volume of corporate deposits (by 24.7 % yoy) and lifted its market share to 11.4 % (+1.4 % as compared with 2011). Deposits of individuals grew by 1.1 % as compared with the end of 2011.

Total capital of the bank reached EUR 451 million (+5.1 % compared with the end of 2011).

As for loans, the bank grew by 24.4 % in the segment of loans to individuals, increasing its market share to 4.4 % (vs. 3.8 % in December 2011). This growth was driven chiefly by housing loans. The portfolio of housing loans went up by almost 25 % yoy and the bank was again one of the market leaders in terms of volumes of new deals. In 2012, the bank launched its first campaign focused on consumer loans and boosted the volume of these products by nearly 50 %.

As regards corporate loans, the bank grew yoy especially in the segment of mid-sized companies (by 9.3 %).

This year saw major developments in cooperation between corporate and retail banking relationship managers in acquisition of employees of our corporate customers. Furthermore, we also participated in the issue of government bonds, confirming UniCredit's position at the top of the European bond market.

In 2012, there was a decent increase in the balance sheet volume of UniCredit Bank Slovakia a. s., resulting mainly from strengthening of its position in customer business. Total volume of the balance sheet was slightly higher than EUR 4 billion, i.e. went up by 4.6 % yoy.

In addition to our standard tasks, a project of integration of UniCredit Bank Czech Republic, a.s. and UniCredit Bank Slovakia a. s. was launched at the end of the year. The aim is to create a strong bank which will manage activities on the Czech and Slovak market, benefiting from economies of scale. Further aims include achievement of better results and growth strategy on both markets.

Dear shareholders,

The 2012 results can be deemed positive even though due to unfavourable market development and changes adopted in taxation and regulation of banks, UniCredit Bank recorded a more substantial profitability decrease.

Further challenges are awaiting us in 2013 - one of the greatest being a successful completion of the project of integration of UniCredit Bank Czech Republic, a. s. and UniCredit Bank Slovakia a. s. into one bank operating on both markets – which is planned to be established in December

2013. Business activities of the bank should not be affected by the ongoing merger. Therefore, it is important to focus on business growth which should lead to increased revenues and profit of the bank. This should be boosted also by closer cooperation of all business and support units of the bank as well as by stronger emphasis on cost efficiency and improvement of the loan portfolio quality. The bank intends to continue enhancing its liquidity position or keeping its favourable position from the end of last year. Steps leading to optimization and increase in the performance of risk weighted assets should contribute to growth of total revenues of the bank and capital savings.

None of the years behind us was a piece of cake and yet, we always managed to overcome the challenges we were facing. I firmly believe that we will successfully face the coming year 2013 as well and will be able to meet the goals our shareholders require us to meet.



Miroslav Štrokendl
Chairman of the Management Board and CEO



PLANNING

State-subsidized home loans made easy



“ *Zagrebačka Banka helped me to resolve my personal and professional financing challenges. I previously worked in Zagreb, where I lived in a rented apartment. When I found another job in my hometown of Split, the bank helped me to secure a state-subsidized loan that allowed me to move back and buy a house. My personal banker was highly skilled and engaged, and my loan application was processed quickly and approved immediately.* **”**

Goran Dlaka, customer of Zagrebačka Banka in Croatia

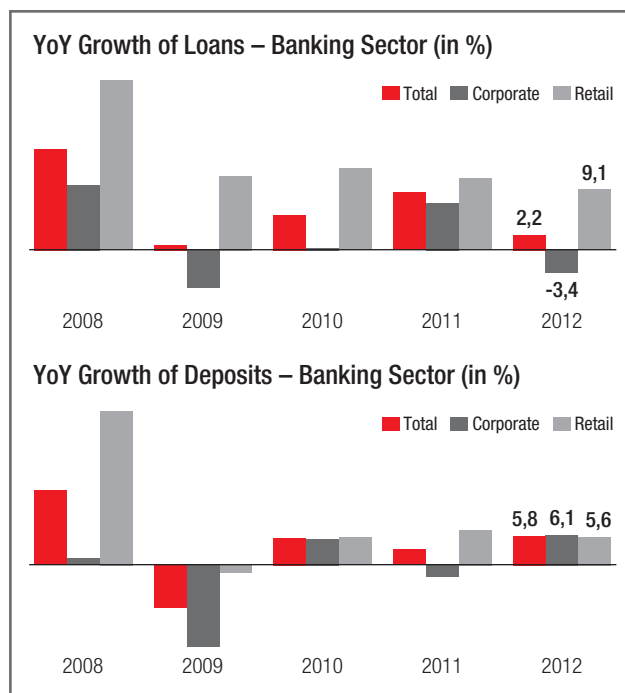
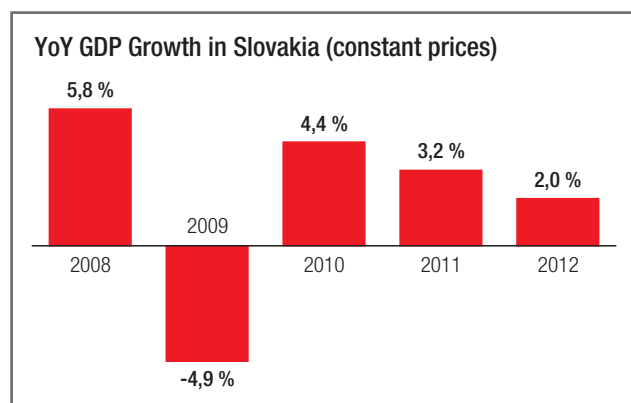
Report on Business Activity and Assets in 2012

Economic and Competitive Environment in the SR

In spite of the slowdown of most European economies, Slovakia managed to keep a relatively dynamic growth in the first half of the year, boosted mainly by a supply shock in automotive industry. However, at the end of the year the dynamic of the year-on-year growth of the Slovak economy also began to slow down as a result of declining external environment which was no longer compensated by further production growth in the automotive industry. In 2012, economic growth continued to be driven solely by external demand whereas domestic demand showed no signs of recovery. Fiscal consolidation slackened in the election year and according to preliminary data.

In 2012, the eurozone kept fighting the debt crisis in particular in peripheral countries. European institutions adopted several measures aimed at stabilization of financial markets and support of economic growth. Consequently, the risk of the eurozone breaking up was reduced substantially in 2012. The ECB kept the key interest rate of the eurozone at the lowest level in history (0.75 %) throughout the year. We expect it to keep the rate at this level also in 2013.

Net profit after taxation of the banking sector decreased by 27.3 % and ROE of the banking sector decreased from 11.2 % to 7.2 % in 2012. Profitability of Slovak banks was heavily affected by the bank levy but also by record low interest rates on the interbank market. Net income dropped by 6.1 % yoy (thereof net interest income by 2.6 %). Operating expenses of the banking sector went up by 3.9 % yoy. Operating profit was reduced by 35.4 % yoy in 2012. The cost of risk went down yoy (net creation of provisions was lower by 51.7 %) also thanks to a decrease in the rate of non-performing loans from 5.8 % to 5.4 %.



Expected Development of the Bank in 2013

After a weaker year-end, Western European economies (in particular Germany) could start recovering already at the beginning of 2013. This should have positive impact on the performance of the Slovak economy and GDP should return to quarter-on-quarter growth. However, economic growth will continue to be driven almost exclusively by foreign demand and first signs of recovery of domestic demand are not expected before the turn of the years 2013 and 2014. Low investment activity of domestic companies is still likely to keep the demand for bank loans at low levels. In spite of this, UniCredit Bank plans to maintain or even strengthen its position in corporate financing also in 2013.

The growth of the economy will not be sufficient to boost employment. The labour market will still be facing gradual unemployment increase at least in the first half of the year. Even though slower growth of prices should help reduce the fall of real salaries, no significant increase in total available funds of individuals is expected. However, low consumer confidence should keep the tendency to save at relatively high levels and together with continuing risk aversion support the growth of bank deposits of individuals. In the segment of loans to individuals, we expect

continued dominance of housing loans, which should be the bank's leading product also in 2013. Nevertheless, UniCredit Bank intends to strengthen its position in the segment of consumer loans as well.

In 2013, UniCredit Bank Slovakia a. s. is planning to merge with UniCredit Bank Czech Republic, a.s. This process will be in progress throughout the year and as of 1 December 2013, UniCredit should transform into a branch of foreign bank in Slovakia. Despite the ongoing merger, the bank's ambition is to continue improving its market position through higher quality of services and increased focus on serving customers. The bank will try to optimize costs and concentrate on risk management also in 2013.

Selected Economic Results of the Bank in 2012

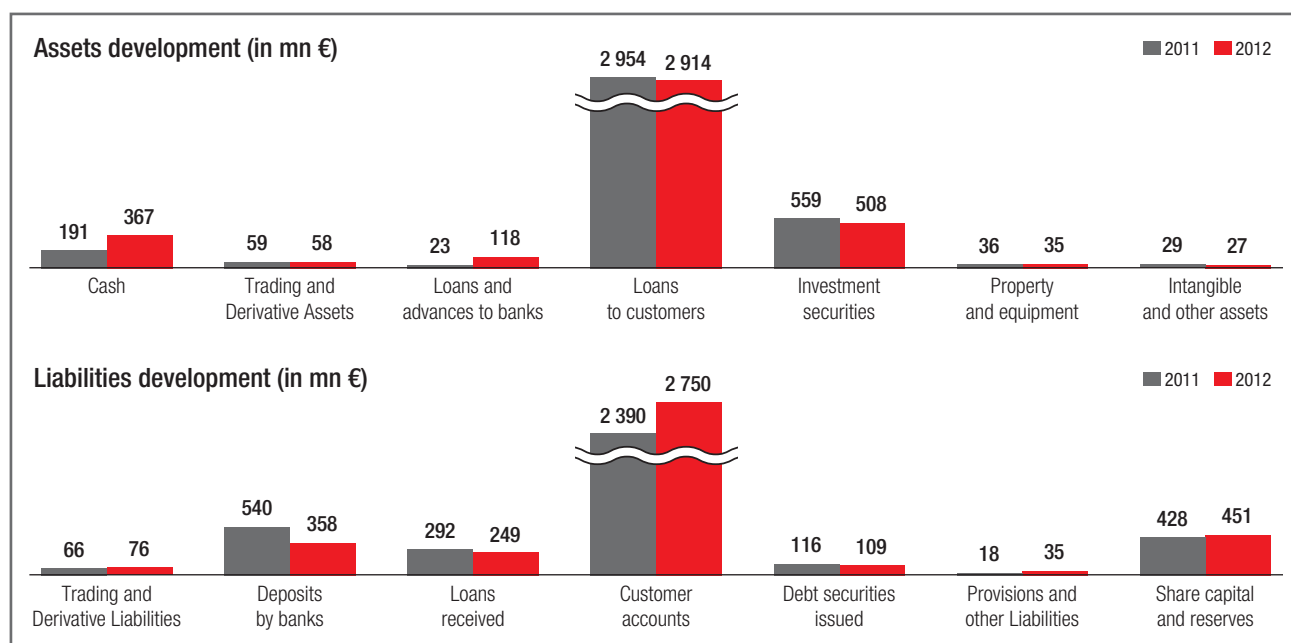
UniCredit Bank Slovakia a. s. in 2012 managed decent growth of the balance sheet volume driven by strengthening of its position in the customer business. Total Balance sheet slightly exceeded EUR 4bn with 4.6 % yoy increase. On the assets side the bank focused on Retail business with 24.4 % growth in loans provided to Individuals, increasing its market share to 4.4 % (vs. 3.8 % in December 2011), driven mainly by housing loans. The portfolio of housing loans increased in comparison to previous year almost by 25 %, and again the bank belonged to the

leaders in the market in volumes of new sales. In 2012, the bank for the first time ran a campaign focused on Consumer financing, increasing volumes of these products by almost 50 %.

On the liabilities side, despite unfavourable development of the market the bank significantly grew in volume of Corporate deposits (24.7 % yoy) and strengthened its market share to 11.4 % (+1.4 % vs. 2011). Deposits of individuals increased in comparison to the end of 2011 by decent 1.1 %. Total Customer deposits rose by 15.1 % yoy up to the volume of EUR 2.8bn. The Equity of the bank reached EUR 451mn, i.e. +5.1 % vs. the end of 2011.

UniCredit Bank continually aims to deliver high standard of services to its customers what proves historically high customer satisfaction index. In both business areas, retail and corporate, in 2012 the bank outperformed average market satisfaction index as well as most of main peers in the country.

In 2012, UniCredit Bank Slovakia a.s. recorded operating revenues at EUR 118.1 million (-4.0 % yoy). Record low interest rate environment and strong market rivalry caused decrease of Net Interest Income by 12.2 %, which was partially offset by substantial 15.1 % yoy growth of non-interest income driven by high value added products in Corporate business. Operating expenses rose by 19.3 % yoy. bank levy (EUR 14.1mn) introduced by the government in 2012, made up 16.3 % of the total costs. Disregarding dramatically strong impact of bank levy



Report on Business Activity and Assets in 2012 (CONTINUED)

on the total amount of Operating expenses, the bank managed to maintain ordinary costs slightly below 2011 level.

The impact of Bank levy and higher creation of loan loss provisions decreased the Net profit of the Bank in 2012 to € 15.6mn.

Good liquidity situation of the bank is reflected in the loan-to-stable-funds ratio at the healthy level 94.6 %. Successful implementation of IRB-F approach to risk weighted assets helped to improve Capital adequacy ratio to 13.97 %, significantly above the required level. The bank managed to outperform all regulatory requirements and healthy financial situation is the strong basis for positive development in years to come.

In 2012, the bank recorded gross losses due to operational risk in the amount of EUR 1.7 million. These gross losses were covered by reserves created in previous years and by other recompense. The frequency of occurrence of monitored events was lower as well (by 7.1 %). The risk capital for operational risk has been calculated according to the advanced measurement approach (AMA approach) since 2010.

Risk Management of the Bank

In 2012, the bank set the following goals in the field of risk management:

- a) to minimize potential losses, enhance the early risk identification system, monitoring and security in the lasting difficult economic environment;
- b) to continue the implementation of Basel 2 principles in line with the project plan,
- c) to manage the content and time of fulfilment of strategically important risk management tasks within centrally (Group level) or locally managed projects.

Development of the bank's risks in the assessed period was in line with the set goals, internal regulations and guidelines as well as with regulatory requirements. As regards credit risk, the bank achieved a very good level of loan portfolio quality despite tough external conditions, with the share of impaired loans on the total loan volume of the bank reaching 6.25 % at the end of the year, which is slightly above the banking sector level (5.3 %).

Corporate portfolio constitutes the largest portion of credit risk with 68.5 % of the total loan portfolio. The portfolio of customers-natural persons (26.6 %) and small businesses (4.9 %) has a growing tendency. The costs of risk amounted to EUR 17.5 million.

The bank ran the following key projects in the field of credit risk:

- a) Basel 2 – the bank implemented the internal rating based capital requirement calculation approach (IRB-F approach) for the corporate portfolio,
- b) validation and re-calibration of credit models as a part of the Basel 2 – IRB approach

Corporate and Investment Banking

In 2012, the bank continued to focus on achievement of the following goals set out in the strategic plan:

- a) improvement of the bank's liquidity through faster growth of deposits as compared with the growth of loans,
- b) optimization of risk-weighted assets through increase of the loan portfolio quality combined with pricing of loans ensuring the desired return rate and provision of a full range of services to loan customers,
- c) increased efficiency of corporate customer service,
- d) retaining the bank's leading position in customer satisfaction in Slovakia.

In line with this strategy, the bank performed acquisition of a 100 % share in the company CAIB Slovakia, a. s. followed by its integration in order to broaden the scope of activities related to provision of business advisory services.

Structured Finance and Large Corporates

In spite of difficult conditions on the corporate banking market in 2012, bank recorded a substantial increase in customer deposits by approximately 75 % yoy in the segment of Large Corporates and Structured Finance. The bank was significantly successful in acquisition of new customers and in conclusion of new transactions, not only in the field of standard lending and non-lending products but also in provision of complex structured tailor-made solutions in commercial and investment banking, retail and wholesale industry, transportation and basic infrastructure. The success in several large business transactions was achieved also thanks to our close cooperation with colleagues from UniCredit Bank Czech Republic, a. s., profiting from the synergies brought about by this cooperation in both countries.

In 2012, the bank continued its participation also in other projects related to renewable energy sources, namely in projects focused on biogas stations and biomass cogeneration units. Involvement in renewable energy sources projects is closely connected with UniCredit Bank's social responsibility strategy in the area of environment protection aimed at reduction of production of direct and indirect emissions.

As usual, the bank actively cooperated with multinational support institutions – the European Investment Bank and the European Bank for Reconstruction and Development. We drew about EUR 200 million from the funds of these banks and allocated them to projects of our customers.

Mid Corporates

The year 2012 was strongly affected by the historically lowest interest rates, which resulted in a shortage of revenues from deposits. However, thanks to commercial activities in regions, the bank managed to compensate for this shortage not only by interest income from loans but also by increased volumes of payment transactions through accounts of our customers. Extension of payment system services was boosted in particular by an increase in the volume of transactions through POS terminals by 44 %. Acceptance of card transactions through POS terminals grew considerably thanks to an increase in the number of POS terminals by more than 1,400, rising the bank's market share in this area from 4 % to 11 %.

In 2012, we again supported a stable component of our business – the agro sector, participating for example in construction of biogas stations. The bank also continued to acquire Mid Corporate customers operating in the countries where the banks of UniCredit Group are present.

One of the most significant achievements of the segment was improvement of the loans-to-deposits ratio – despite continuing growth of loans, we managed to balance the L/D ratio thanks to commercial activities focused on growth of deposits.

Financial Institutions

Following the establishment of Financial Institutions as a separate segment in 2011, last year was characterized by extension of cooperation with financial institutions in Slovakia in order to achieve a substantial increase in deposit volumes. The bank also participated in two issues of government bonds assuming the role of the arranger and settlement agent in cooperation with product units in our bank Group.

The Financial Institution department applies in its activities the internationally recognized know-how of Global Transaction Services product units (Cash Management, Global Securities Services) and offers its customers – financial institutions – a broad portfolio of products and services.

Trading Desk and Treasury Sales

In 2012, UniCredit Bank confirmed its stable position and reputation in the area of Treasury and was a trustworthy partner of other banks in terms of interbank deals. The number of transactions with customers is another indicator of this segment's satisfaction with services of the bank.

Report on Business Activity and Assets in 2012 (CONTINUED)

In the area of Treasury products for customers, the bank intensified its orientation toward creation of sophisticated solutions, focusing chiefly on hedging of customers against market risks such as currency or interest rate fluctuation.

As for trading on own account, the bank traded mainly government bonds, following a conservative investment strategy. The positive result of trading on own account was largely aided by FX trading, where the bank played an active role especially in trading of currencies of V4 countries and EUR/USD.

Retail Banking

In the Retail Banking Division, 2012 was characterized by continuation of the successful strategy focused on provision of loans to individuals, acquisition of new customers, stabilization of primary deposits as well as strengthening of the traditionally high customer satisfaction.

The bank continued concentrating on the growth of its market share in housing loans and managed to acquire on average more than 11 % of newly provided mortgage loans on the market, increasing its market share by ca. 0.7 % in the course of the year. Furthermore, the bank was successful also in the area of consumer loans, which was supported by a media campaign for a loan with an attractive single interest rate for all applicants.

As for investment products, the bank started offering investment certificates as a modern and sophisticated form of investing with potentially attractive revenues. The distribution system is based primarily on personal bankers taking care of the most important Affluent customers of the bank in selected branches.

Another important activity of UniCredit Bank in 2012 was acquisition of new customers. The bank again focused on cooperation with the Corporate and Investment Banking Division and restarted the long-term "CoReCo" project, which has already brought the first results. The aim of the project is to offer fully-fledged solutions and advisory to small and medium enterprises and their employees, taking into consideration interests of the company management and individual needs of the employees. In addition, the bank accomplished a successful project concerning the Package Contract, which makes the process of opening of current accounts for new customers much more efficient and helps increase the total cross-sell ratio.

Customer acquisition was also supported by another important project – launching of sale of the prepaid payment card StickAir, issued in the form of a payment sticker. Issuing and use of the card is not subject

to opening of a current account in the bank, which makes it a popular product especially among younger generation.

As regards alternative channels, Bank worked in particular on extension of the portfolio of electronic banking services. In Online Banking, we added an electronic application for issuing of the payment sticker StickAir. Another innovation made available to our customers within this channel was introduction of the possibility to activate the Mobile Banking BankAir service. In the first four months, more than 1,300 customers used this channel to activate BankAir.

In the second quarter, Bank launched a new web application called bShop, in which existing and potential customers of the bank can use an electronic form to indicate their interest in certain products and services. Since its launch in May 2012, this new communication channel has generated more than 1,100 new requests with full contact details.

In the area of traditional distribution channels, the bank continued its effort to streamline the existing branch network and managed to open a new branch in the Avion shopping centre, serving customers seven days a week.

Private Banking

Despite the continuing economic and financial crisis, private banking of UniCredit Bank managed to become more recognized among well-to-do customers, which was reflected in the growth of the number of Private banking customers by almost 7 % yoy.

As of the end of 2012, total financial assets in the volume of EUR 393.8 million (an increase by 3.14 % yoy) were under management of Private banking.

The successful launch of Open Architecture – a possibility to invest in mutual funds of six leading investment companies – brought a new dimension to Private banking in Slovakia.

In March 2012, distribution of investment certificates was launched and customers were offered more than 50 different certificates. The total sales volume reached EUR 7.6 million.

The most successful private banking products include ERGO products with sales volume of more than EUR 7 million and the VISA INFINITE debit card with a 10 % yoy increase in the number of sold cards and a 38 % increase in the number of card transactions.

Human Resources

As of 31 December 2012, the total headcount of Bank employees was 1,165, out of which 63.5 % working in front office positions. Overall staff turnover remained at the average market level. Compared to 2011, a significant improvement in Retail business turn-over was registered, mainly thanks to the combination of a different incentive system introduced around one year ago and the market conditions.

The average age of employees is 38 years and 61.8 % of them have university education. The balance between men and women among employees is 30:70, showing a significant majority of women. The ratio gets more balanced on senior positions, up to 43 % of women among the first reporting line to the CEO.

One of the main focuses of the Human Resources activity is on the development and spread of the performance management culture throughout the bank, linking all the processes of HR not only from a timing point of view, but also putting all of them in connection to the final aim to improve and boost the employees and the bank performance and engagement, enabling both the managers and the employees to build effective development activities. This cultural change process requires a long time to be really embedded in the bank.

Within the Training and Development area, the ongoing bank strategy is to develop and provide internal courses versus the recourse to external providers, also by leveraging the already existing expertise within the Group. With regard to the tools, a high emphasis is also given to the e-learning, as effective and efficient way to deliver trainings in the technical areas. In 2012, 16 e-courses were offered, including all the compulsory trainings as per legal requirements. 2012 was a particularly successful year in this area, in spite of a very cost-aware budget. The bank employees attended on 5,460 training days, with an average participation of 4.68 days 31.8 hours per employee. Trainings according to the legal Act no.186/2009 on financial intermediation and financial counselling are part of our training agenda: 111 employees (which means 100 % of attendees) successfully passed the middle grade exam.

Some of the most important development initiatives run in 2012 were focused on the middle management and the most talented and high-potential employees who are the part of the Talent Management process. Regarding the executives: there were two UniManagement trainings held in Bratislava for Executive Development Plan and Talent Management Review participants - Strategic Finance in January and Leading Leaders in October. There were also individual participations

on UniManagement Learning Labs – Leading Leaders in Vienna, Power, Influence, Collaboration in Torino, Risk Master Series in Torino.

Regarding the Talent population: the bank launched and held six Development Centers with the aim of identifying and highlighting strengths and weaknesses of this key pool of employees, mapping of the current status of competencies with final goal to support the participants, their managers and the company to tailor effective development plans and career paths. There were six days of development centers and 54 participants.

With regard to the 2011 People Survey, the linked action plan was built at the beginning of 2012 through the involvement of around 100 managers. Nine actions were selected and implemented, with a higher focus on improving item: Customer Focus through improving internal processes. The year was focused on the implementation of those action plans.

Corporate Philanthropy and Sponsoring

In 2012, we continued to focus especially on support of our long-term projects strategically oriented toward culture and sport. As for social projects, we concentrated on enhancement of our cooperation with non-profit organizations devoted to helping children and people in need.

It was already the fourth time that the bank was the general partner of the International Film Festival Bratislava – a unique cultural project bridging generation and cultural gaps between people and supporting creativity of young artists. Through partnership with the prestigious 13th Opera Ball and support of the 107th evening auction of art works in the saleroom of SOGA, the bank declared its strategy in the field of cultural support and philanthropy as tools for creation of sustainable values.

The bank participated in other cultural activities as well, supporting several regional cultural projects such as the 53rd International Folklore Festival Myjava, European Folk Crafts in Kežmarok, Days of Master Paul in Levoča, etc.

As regards sport sponsoring activities, the UniCredit brand is closely connected with UEFA Champions League. Last year, the bank renewed its cooperation with HC SLOVAN. Through sport partnerships, the bank strengthens its engagement in support of sport as a key tool of communication with its partners and customers.

Report on Business Activity and Assets in 2012 (CONTINUED)

As for philanthropy, the bank continued cooperation with the civic association MAGNA Deti v núdzi, which helps children in developing countries. In addition to direct financial aid, the bank supports activities of the association also through the charity credit and debit payment card MAGNA. When using the MAGNA payment card issued to an account, customers of the bank donate EUR 0.20 from each transaction directly to activities of the association; when using the MAGNA credit card, they donate 0.5 % of the volume of each transaction, and the bank donates the same amount as the customers. Furthermore, the bank actively supports the project MAGNA Záchrana through which customers and employees of the bank make regular donations starting from EUR 3 to help children in need. Depending on the amount of the regular donation, children in crisis areas can receive food, nutrition, medication or healthcare. In cooperation with the auction company SOGA, the bank organized an exclusive charity auction for UniCredit Private Banking customers, where they could bid for a limited edition of nine porcelain dolls by fashion designer Boris Hanečka. Proceeds from the auction amounting to EUR 13,950 were donated to MAGNA Deti v núdzi in order to provide full healthcare and education to children in Cambodia.

The bank – in cooperation with the UniCredit Foundation – encourages an active approach to philanthropy among its employees, which was reflected also in their participation in employee collections of books and sport equipment donated to children who found their homes in substitute families thanks to the association Návrat. In addition, the bank supports activities of Návrat through provision of free financial and legal advisory. Another form of this multilevel partnership is the support of the project Trvalý návrat based on regular donations from individuals by means of a standing order in any amount.

Within the Group initiative Gift Matching Program organized every year by the UniCredit Foundation, bank employees voluntarily supported five non-profit organizations active in the area of social work and healthcare with a total of EUR 8,183. Increasing participation of employees in the Drop of Blood proves their commitment to corporate philanthropy and volunteering.

Shareholders

As of December 31, 2012, the registered capital of UniCredit Bank Slovakia a. s. was listed in the Bratislava I District Court Commercial Register in the amount of EUR 235,492,694.26, with a nominal value of EUR 6.14 per share.

In 2012, there were no changes in the amount of the Bank's registered capital.

The structure of shareholders of UniCredit Bank Slovakia a. s. as of December 31, 2012

SHAREHOLDER	SHARE (%)
UniCredit Bank Austria AG	99.03
Ministry of Agriculture and Rural Development of the SR	0.36
Domestic shareholders with less than 1 %	0.60
Foreign shareholders with less than 1 %	0.01

RECHARGING

Supporting enterprise with concrete actions
UniCredit International

“ I own a small business that produces equipment for recycling precious metals. After winning a bid for a project with the Indian government last year, we were in need of a qualified partner to manage our complex operations abroad. UniCredit believed in us and our work, providing us with the initial warranty request, a letter of credit and the loans we needed. Thanks to their support, we successfully completed the project. ”



Paolo Balestri, Balestri impianti,
customer of UniCredit in Italy



Branch Network of UniCredit Bank Slovakia a. s. as of December 31, 2012

List of retail banking branches of UniCredit Bank

Regional retail network – Bratislava

BRANCH – ADDRESS	PHONE	FAX
821 08 Bratislava, Krížna 50	02/49 50 41 06	02/55 42 40 13
811 01 Bratislava, Mostová 6	02/59 42 80 01, 02	02/59 42 80 00
811 03 Bratislava, Panenská 7	02/54 41 89 54, 55	02/54 41 32 28
811 06 Bratislava, Nám. 1. mája 18, PARK ONE	02/57 20 23 10	02/57 20 23 00
811 08 Bratislava, Dunajská 25	02/57 10 74 10	02/57 10 74 33
821 08 Bratislava, Dulovo nám. 13	02/50 20 20 61	02/50 20 20 66
813 33 Bratislava, Šancová 1/A	02/49 50 23 30, 29, 34, 25 02, 25 04	02/49 50 25 05
813 33 Bratislava, Šancová 1/A, BiznisDom	02/49 50 25 98	02/49 50 25 95
851 01 Bratislava, Einsteinova 18, BSC AUPARK	02/68 20 20 33, 34, 36	02/68 20 20 35
811 06 Bratislava, Hurbanovo nám. 1	02/59 30 54 15	02/54 41 66 96
821 09 Bratislava, Plynárenská 7/A	02/58 10 30 80	02/58 10 30 85
813 38 Bratislava, Rybné nám. 1, Park INN Danube	02/59 42 80 08	02/59 42 80 00
841 04 Bratislava, Dúbravská cesta 2, Westend	02/59 20 20 35	02/59 20 20 30
821 09 Bratislava, Trenčianska 56/A	02/58 10 10 75	02/58 10 10 70
821 07 Bratislava, Dudvážska 5, NC HRON	02/40 25 57 01 – 06	02/40 25 57 00
841 02 Bratislava, Saratovská 6B, Rustica	02/60 30 10 05	02/60 30 10 00
821 09 Bratislava, Prievozská 4/A, Apollo BC II	02/58 10 14 05, 03	02/58 10 14 00
831 04 Bratislava, Vajnorská 100, Polus CC	02/49 11 48 06, 05, 04, 03	02/49 11 48 00
821 04 Bratislava, Ivanská cesta 16, Avion SC	02/48 25 27 01, 02	02/48 25 27 00

Regional retail network – West I

BRANCH – ADDRESS	PHONE	FAX
917 00 Trnava, Štefánikova 48	033/590 83 09	033/590 83 53
901 01 Malacky, Záhorácka 51	034/797 92 01	034/797 92 14
921 01 Piešťany, Nitrianska 5	033/791 08 14	033/791 08 33
902 01 Pezinok, Holubyho 27	033/690 54 01	033/690 54 05
909 01 Skalica, Škarniclovská 1	034/690 61 21	034/690 61 25
905 01 Senica, Hviezdoslavova 61	034/690 91 10	034/690 91 33
920 01 Hlohovec, M. R. Štefánika 4	033/735 10 19, 11, 12, 14	033/735 10 15
911 01 Trenčín, Nám. sv. Anny 3	032/650 92 01	032/650 92 03
915 01 Nové Mesto nad Váhom, Čsl. armády 4	032/748 49 91	032/748 49 95
907 01 Myjava, Nám. M. R. Štefánika 581/29A	034/698 33 06, 01, 02	034/698 33 00
957 01 Bánovce nad Bebravou, Jesenského 561/3	038/762 70 11	038/762 70 15
017 01 Považská Bystrica, M. R. Štefánika 161/4	042/437 99 51	042/437 99 55
903 01 Senec, Lichnerova 30	02/40 20 20 51	02/4020 20 55

Regional retail network – West II

BRANCH – ADDRESS	PHONE	FAX
949 01 Nitra, Štefánikova 13	037/692 60 00	037/692 60 50
949 01 Nitra, Chrenovská 1661/30, ZOC MAX	037/692 89 01, 02	037/692 89 00
955 01 Topoľčany, Krušovská 19	038/532 70 54	038/532 70 55
940 62 Nové Zámky, Svätoplukova 1	035/691 12 21	035/691 12 00
940 01 Nové Zámky, Majzonovo nám. 2	035/691 34 11	035/691 34 33
934 01 Levice, Bernolákova 2	036/635 03 19	036/635 03 15
929 01 Dunajská Streda, Hlavná 5599/3B	031/590 55 09	031/590 55 00
924 01 Galanta, Revolučná 1	031/788 45 01 – 10	031/778 45 00
945 01 Komárno, Nám. M. R. Štefánika 11	035/790 00 61	035/790 00 65
927 01 Šaľa, Hlavná 12A	031/783 87 01 – 06	031/783 87 00
971 01 Prievidza, Ul. G. Švéniho 3A	046/518 94 02	046/518 94 00
930 39 Zlaté Klasy, Pekná cesta 1	031/591 10 14	031/591 10 15
926 01 Sereď, Dionýza Štúra 1012	031/789 30 94	031/789 27 07
931 01 Šamorín, Gazdovský rad 49/B	031/562 79 60	031/562 79 62

Regional retail network – Middle

BRANCH – ADDRESS	PHONE	FAX
010 01 Žilina, Národná 12	041/562 82 38	041/562 82 04
010 01 Žilina, Veľká okružná 59A	041/562 85 01 – 06	041/562 85 00
036 01 Martin, M. R. Štefánika 1	043/420 70 22	043/420 70 11
022 01 Čadca, Palárikova 85	041/430 28 11 – 14	041/430 28 15
031 01 Lipt. Mikuláš, Nám. osloboditeľov 7	044/547 50 04	044/547 50 05
034 01 Ružomberok, Mostová 2	044/432 06 58	044/432 06 60
960 01 Zvolen, Nám. SNP 50	045/524 80 21	045/524 80 16
974 01 Banská Bystrica, Na Troskách 25, SC EUROPA	048/472 30 01	048/472 30 00
974 01 Banská Bystrica, Nám. SNP 18	048/471 97 06	048/471 97 00
984 01 Lučenec, Železničná 15	047/430 35 23	047/430 35 20
965 01 Žiar nad Hronom, Š. Moyzesa 427	045/678 89 01	045/678 89 05
977 01 Brezno, ČSA 17	048/670 00 51	048/670 00 55

Branch Network of UniCredit Bank Slovakia a. s. as of December 31, 2012 (CONTINUED)

Regional retail network – East

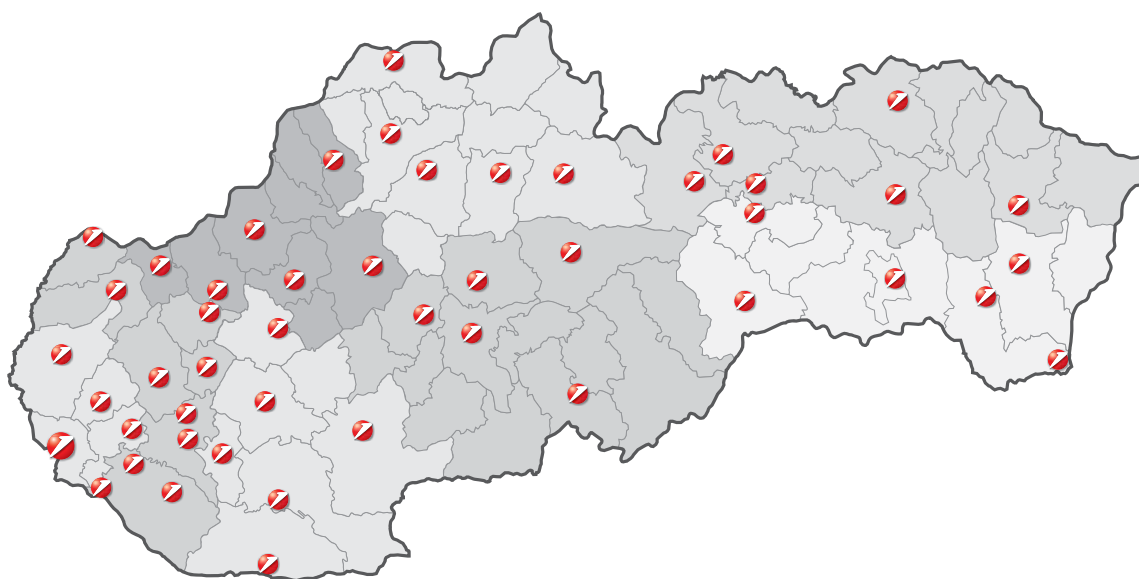
BRANCH – ADDRESS	PHONE	FAX
040 01 Košice, Rooseveltova 10	055/680 51 30	055/623 27 41
040 01 Košice, Toryská 1/C	055/788 18 64	055/788 18 60
040 01 Košice, Mlynská 7	055/728 19 02	055/728 19 11
040 01 Košice, Nám. osloboditeľov, AUPARK	055/726 25 06	055/726 25 00
071 01 Michalovce, Nám. osloboditeľov 1	056/688 07 01	056/688 07 07
048 01 Rožňava, Nám. baníkov 33	058/788 07 08	058/788 07 00
076 43 Čierna nad Tisou, Hlavná 11	056/687 15 41	056/687 15 40
075 01 Trebišov, M. R. Štefánika 20	056/667 00 19	056/667 00 15
080 01 Prešov, Hlavná 29	051/772 96 38	051/772 96 05
080 01 Prešov, Vihorlatská 2A, ZOC MAX	051/756 30 06	051/756 30 00
085 01 Bardejov, Dlhý rad 17	054/488 04 15	054/488 04 10
066 01 Humenné, Mierová 64/2	057/786 23 41	057/786 23 45
058 01 Poprad, Popradské nábr. 18	052/787 03 22	052/772 11 65
052 01 Spišská Nová Ves, Zimná 56	053/419 71 10	053/442 57 88
060 01 Kežmarok, Hlavné nám. 3	052/468 00 31	052/468 00 35
054 01 Levoča, Nám. Majstra Pavla 19	053/418 26 07	053/418 26 00

List of corporate banking branches of UniCredit Bank Slovakia

BRANCH – ADDRESS	PHONE	FAX
821 08 Bratislava, Krížna 50	02/4950 42 02	02/5542 27 74
917 01 Trnava, Štefánikova 48	033/590 83 30	033/590 83 53
911 01 Trenčín, Nám. sv. Anny 3	032/650 92 02	032/650 92 04
949 01 Nitra, Štefánikova tr. 13	037/692 60 05	037/692 60 50
929 01 Dunajská Streda, Hlavná 5599/3B	031/590 55 38	031/590 55 20
010 01 Žilina, Národná 12	041/562 82 01	041/562 82 04
036 01 Martin, M. R. Štefánika 1	043/420 70 23	043/420 70 05
960 01 Zvolen, Nám. SNP 50	045/524 80 11	045/532 07 00
040 01 Košice, Rooseveltova 10	055/680 51 11	055/623 27 41
080 01 Prešov, Hlavná 29	051/772 96 11, 04	051/772 96 00
058 01 Poprad, Popradské nábr. 18	052/787 03 10	052/772 11 65

List of private banking branches of UniCredit Bank

POBOČKA – ADRESA	PHONE	FAX
811 02 Bratislava, Mostová 6	02/59 42 80 16 – 17	02/59 42 80 40
917 01 Trnava, Štefánikova 48	033/590 83 11	033/590 83 53
911 01 Trenčín, Nám. Sv. Anny 3	032/650 92 09	032/650 92 04
949 01 Nitra, Štefánikova tr. 13	037/692 60 14	037/692 60 50
929 01 Dunajská Streda, Hlavná 5599/3B	031/590 55 29	031/590 55 20
010 01 Žilina, Národná 12	041/562 82 31	041/562 82 04
036 01 Martin, M. R. Štefánika 1	043/420 70 02	043/422 48 92
960 01 Zvolen, Nám. SNP 50	045/524 80 49	045/532 07 00
040 01 Košice, Rooseveltova 10	055/680 51 83	055/680 51 84






PEACE OF MIND

How to save a Customer's holiday

“ *When I lost my Visa card while on vacation abroad, UniCredit Bank's emergency cash disbursement service saved me from what could have been a disastrous situation. I used the service twice while visiting Paris and Moscow and it exceeded my expectations, allowing me to pay for my hotel, entertainment and other expenses. I was impressed by the service's quality and speed – I was able to have cash in-hand in less than an hour. This experience taught me that my bank is 100 percent prepared to support me at anytime, even in the most difficult of situations. I know now that I can count on UniCredit's professional advice and real solutions for whatever I need.* **”**

Yurov Valeriy Anatolievich,
customer of UniCredit Bank in Ukraine



Financial statements

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

Year ended 31 December 2012

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Independent Auditors' Report



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Slovakia

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Fax +421 (0)2 59 98 42 22
Internet www.kpmg.sk

Translation of the Independent Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

To the Shareholders, Supervisory Board and Board of Directors of UniCredit Bank Slovakia a. s.:

We have audited the accompanying financial statements of UniCredit Bank Slovakia a. s. ("the Bank"), which comprise the statement of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management as represented by the statutory body is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

4 March 2013
Bratislava, Slovak Republic

Auditing company:
KPMG Slovensko spol. s r.o.
License SKAU No. 96



Responsible auditor:
Ing. Richard Farkaš, PhD.
License SKAU No. 406

KPMG Slovensko spol. s r.o., a Slovak limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Obchodný register Okresného súdu Bratislava I, oddiel Sre, vložka č. 4864/B
Commercial register of District court Bratislava I, section Sro, file No. 4864/B

IČO/Registration number:
31 348 238
Evidenčné číslo licencie audítora: 96
Licence number of statutory auditor: 96

Statement of financial position


Year Ended 31 December 2012


UniCredit Bank Slovakia a. s.

Statement of financial position As at 31 December 2012

	Notes	2012 € '000	2011 € '000
Assets			
Cash and cash equivalents	7	366,556	191,236
Trading assets	9	54,940	56,888
Derivative assets held for risk management	10	3,182	1,789
Loans and advances to banks	11	118,204	23,314
Loans and advances to customers	12	2,913,952	2,953,601
Investment securities	14	508,326	558,606
Property and equipment	15	35,309	36,447
Intangible assets	16	3,238	7,085
Corporate income tax –asset	23	1,785	-
Deferred tax asset	24	17,899	18,625
Other assets	17	3,067	2,538
Prepayments and accrued income		676	838
		<u>4,027,134</u>	<u>3,850,967</u>
Liabilities			
Trading liabilities	9	42,310	45,119
Derivative liabilities held for risk management	10	34,071	21,159
Deposits by banks	18	357,922	540,025
Customer accounts	19	2,749,999	2,389,619
Loans received	20	249,291	291,917
Debt securities issued	21	108,515	116,210
Provisions	22	22,804	4,901
Corporate income tax – liability	23	-	353
Other liabilities		4,637	7,452
Accruals and deferred income		7,068	5,739
		<u>3,576,617</u>	<u>3,422,494</u>
Share capital and reserves			
Share capital	25	235,493	235,493
Reserves	26	215,024	192,980
		<u>450,517</u>	<u>428,473</u>
		<u>4,027,134</u>	<u>3,850,967</u>

The financial statements, which include the notes on pages 34 to 105, were approved by the Management Board on 4 March 2013 and signed by:


Miroslav Štokendl
Chairman of the Management Board


Franz Wolfger
Vice-Chairman of the Management Board

The financial statements were prepared by the person responsible for the preparation of the financial statements and signed by:

Viera Durajová
Head of Accounting



Statement of comprehensive income

Year ended 31 December 2012

	Notes	2012 €'000	2011 €'000
Interest income	28	124 071	134 394
Interest expense	29	(48 583)	(48 422)
Net interest income		75 488	85 972
Fee and commission income	30	39 872	35 418
Fee and commission expense	30	(7 112)	(6 716)
Net fee and commission income	30	32 760	28 702
Net trading income	31	9 442	7 713
Other income		452	641
		9 894	8 354
Operating income		118 142	123 028
Administrative expenses	32	(78 124)	(63 674)
Depreciation	15	(4 553)	(5 172)
Amortisation	16	(3 846)	(3 666)
Operating expenditure		(86 523)	(72 512)
Operating profit before impairment losses and provisions		31 619	50 516
Net release/ (impairment losses) on loans and advances	13	3 054	(12 599)
Net release/ (impairment losses) on property and equipment	15, 16	1 364	(333)
Impairment losses on other assets	17	(116)	(55)
Provisions	22	(19 403)	1 254
Profit before taxation		16 518	38 783
Income tax expense	33	(916)	(7 028)
Profit after taxation		15 602	31 755
Other comprehensive income			
Cash flow hedges:			
Effective portion of changes in fair value, net of tax		(60)	(1 571)
Net amount transferred to profit or loss		–	486
Available-for-sale assets:			
Change in fair value, net of tax		19 570	(25 711)
Net amount transferred to profit or loss		2 274	1 806
Other comprehensive income		21 784	(24 990)
Total comprehensive income for the year		37 386	6 765
Basic and diluted earnings per share (expressed in EUR per share)	34	0,41	0,83

The notes on pages 34 to 105 are an integral part of these financial statements.

Statement of changes in shareholders' equity Year ended 31 December 2012

	Share capital €'000	Retained earnings €'000	Legal reserve fund €'000	Fair value reserve €'000	Cash flow hedge reserve €'000	Total €'000
At 1 January 2011	235 493	146 625	38 891	662	(120)	421 551
Total comprehensive income for the year						
Profit for 2011	–	31 755	–	–	–	31 755
Other comprehensive income						
Available-for-sale assets:						
Change in fair value, net of tax	–	–	–	(25 711)	–	(25 711)
Net amount transferred to profit or loss	–	–	–	1 806	–	1 806
Cash flow hedges:						
Effective portion of changes in fair value, net of tax	–	–	–	–	(1 571)	(1 571)
Net amount transferred to profit or loss	–	–	–	–	486	486
Total other comprehensive income	–	–	–	(23 905)	(1 085)	(24 990)
Total comprehensive income for the year	–	31 755	–	(23 905)	(1 085)	6 765
Transactions with owners						
Untaken dividends	–	157	–	–	–	157
Transfers	–	(1 150)	1 150	–	–	–
At 31 December 2011	235 493	177 387	40 041	(23 243)	(1 205)	428 473

See also notes 25 and 26 for details of movements in shareholders' equity accounts during the year. The notes on pages 34 to 105 are an integral part of these financial statements.

Statement of changes in shareholders' equity Year ended 31 December 2012 (CONTINUED)

	Share capital €'000	Retained earnings €'000	Legal reserve fund €'000	Fair value reserve €'000	Cash flow hedge reserve €'000	Total €'000
At 1 January 2012	235 493	177 387	40 041	(23 243)	(1 205)	428 473
Total comprehensive income for the year						
Profit for 2012	–	15 602	–	–	–	15 602
Other comprehensive income						
Available-for-sale assets:						
Change in fair value, net of tax	–	–	–	19 570	–	19 570
Net amount transferred to profit or loss	–	–	–	2 274	–	2 274
Cash flow hedges:						
Effective portion of changes in fair value, net of tax	–	–	–	–	(60)	(60)
Net amount transferred to profit or loss	–	–	–	–	–	–
Total other comprehensive income	–	–	–	21 844	(60)	21 784
Total comprehensive income for the year	–	15 602	–	21 844	(60)	37 386
Transactions with owners						
Dividends	–	(15 342)	–	–	–	(15 342)
Transfers	–	(3 176)	3 176	–	–	–
At 31 December 2012	235 493	174 471	43 217	(1 399)	(1 265)	450 517

See also notes 25 and 26 for details of movements in shareholders' equity accounts during the year. The notes on pages 34 to 105 are an integral part of these financial statements.

Statement of cash flows

Year ended 31 December 2012

	Notes	2012 €'000	2011 €'000
Cash flows from operating activities			
Profit before changes in operating assets and liabilities	35	37 967	57 136
Decrease in trading assets		1 948	24 300
(Increase)/decrease in derivative assets held for risk management		(1 393)	1 438
(Increase)/decrease in loans and advances to banks		(94 890)	31 973
Decrease /(increase) in loans and advances to customers		42 703	(169 100)
Decrease/(increase) in other assets		645	(7 248)
Decrease in prepayments and accrued income		162	46
Decrease in trading liabilities		(2 809)	(924)
Increase in derivative liabilities held for risk management		12 912	11 177
(Decrease)/increase in deposits by banks		(182 103)	135 262
Increase/(decrease) in customer accounts		360 380	(559 186)
Use of provisions		(1 500)	(2 559)
Decrease in other liabilities		(2 815)	(83)
Increase in accruals and deferred income		1 329	79
Income tax paid		(7 268)	(8 473)
Net cash from/ (used in) operating activities		165 268	(486 162)
Cash flows from investing activities			
Acquisition of investment securities		(132 893)	(279 402)
Proceeds from sale of investment securities		210 881	302 823
(Purchase)/sale of property and equipment		(2 274)	1 059
Sale of intangible assets		1	4 391
Net cash from investing activities		75 715	28 871
Cash flows from financing activities			
(Repayment of)/proceeds from loans received		(42 626)	37 732
(Maturity)/issuance of debt securities		(7 695)	3 716
Dividends paid		(15 342)	–
Net cash (used in)/from financing activities		(65 663)	41 448
Net increase/(decrease) in cash and cash equivalents		175 320	(415 843)
Cash and cash equivalents at beginning of year		191 236	607 079
Cash and cash equivalents at end of year	7	366 556	191 236

The notes on pages 34 to 105 are an integral part of these financial statements.

Notes to the financial statements

Year ended 31 December 2012

1. General information

UniCredit Bank Slovakia a. s. ('the Bank'), is a company incorporated in the Slovak Republic. The Bank's registered office is at Šancová 1/A, 813 33 Bratislava, IČO: 00681709, tax identification number: 2020372618. The ultimate shareholder is UniCredit S.p.A., a bank incorporated in Italy.

At 31 December 2012, the shareholders structure was as follows:

SHAREHOLDERS	%
UniCredit Bank Austria AG, Vienna, Austria	99.0
Ministry of Agriculture of the Slovak Republic	0.4
Other shareholders	0.6

The principal activities of the Bank are the provision of banking operations, securities trading and investment banking services to commercial and private customers resident mainly in the Slovak Republic.

The Bank's headquarter is in Bratislava. The Bank operates through 73 branch offices located throughout the Slovak Republic.

The financial statements of UniCredit Bank Slovakia a. s. for the preceding accounting period, the year ended 31 December 2011, were approved by the General Meeting of Shareholders on 23 April 2012.

The financial statements of the Bank are included in the consolidated financial statements of UniCredit S.p.A. These financial statements are available at Piazza Cordusio, 20123 Milan, Italy.

The members of the Management Board are as follows:

Miroslav Štokendl – chairman, from 1 December 2012
Jozef Barta – chairman, until 30 November 2012
Franz Wolfger – vice-chairman
Zuzana Žemlová
Monika Kohútová

The members of the Supervisory Board are as follows:

Heinz Meidlinger – chairman
Gerhard Deschkan – vice-chairman, until 25 March 2012
Alberto Devoto
Viera Durajová
Alessio Pomasan
Jaroslav Hazlinger
Jana Szászová
Gerhard Deschkan, from 23 April 2012
Simone Marcucci, from 23 April 2012
Slávka Jánošíková, from 23 April 2012
Claudio Cesario, until 23 April 2012
Karol Zimmer, until 23 April 2012

The members of the Audit Committee are as follows:

Heinz Meidlinger
Alberto Devoto
Gerhard Deschkan, from 9 May 2012
Claudio Cesario, until 23 April 2012

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and as required by Section 17a of the Slovak Act No 431/2002 Coll. on Accounting as amended.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- recognised financial assets designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged

(c) Functional and presentation currency

These financial statements are presented in euro, which is the Bank's functional currency. Except as otherwise indicated, financial information presented in euro has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is provided in notes 4 and 5.

(e) Changes in accounting policies

There were no changes in accounting policy during the year ended 31 December 2012.

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency

Transactions denominated in foreign currencies are translated to euro at the exchange rates ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at each end of a reporting period are translated to euro at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. All resulting gains and losses are recorded in Net trading income in profit or loss.

(b) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented, together with all other changes in the fair value of trading assets and liabilities, in Net trading income.

Interest income and expense in the statement of comprehensive income include:

- interest on financial assets and liabilities at amortized cost calculated on an effective interest basis
- interest on available-for-sale investment securities calculated on an effective interest basis
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expense
- fair value changes in qualifying derivatives (including hedge ineffectiveness) and related hedged items in fair value hedges of interest rate risk.

(c) Fees and commissions

Fee and commission income and expenses that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fee and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(d) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

(e) Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

(f) Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(g) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at each end of a reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(h) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits by banks, customer accounts, loans received and debt securities issued on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

(ii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets

that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

The Bank also derecognises certain assets when it writes off assets deemed to be uncollectible.

(iii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the reporting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, the discounted cash flow method and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

3. Significant accounting policies (CONTINUED)

factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported by observable market data or the transaction is closed out.

Assets and long positions are measured at bid price; liabilities and short positions are measured at asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The Bank uses widely recognised valuation models for determining the fair value of the more common financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

(vi) Identification and measurement of impairment

At each end of a reporting period, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be reliably estimated.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructur-

ing of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related

to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

The Bank writes off certain loans and advances and investment securities when they are determined to be uncollectable (see note 5).

(i) Cash and cash equivalents

Cash and cash equivalents comprises cash, unrestricted balances held with the National Bank of Slovakia and highly liquid financial assets with original maturities of less than three months which are subject to an insignificant risk of changes in their fair value and are used by the Bank in the management of short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(j) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of Net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

(k) Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The Bank designates derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Bank formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge transaction, together with the method that will be used to assess the effectiveness

of the hedging relationship. The Bank makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within the range of 80-125 percent. The Bank makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

The treatment of changes in their fair value depends on the classification of derivatives held for risk management purposes into the following categories:

(i) Fair value hedge

When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of comprehensive income as the hedged item).

If the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is prospectively discontinued. Any adjustment up to that point to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash flow hedge

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative are recognised in other comprehensive income in the hedging reserve. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the derivative expires or is sold, terminated or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is prospectively discontinued and the amount recognised in other comprehensive income and presented

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

3. Significant accounting policies (CONTINUED)

in the hedging reserve remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss.

(iii) Other non-trading derivatives

When a derivative is not held for trading and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of net income.

(iv) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a 'host contract'). The Bank accounts for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss and the characteristics of the embedded derivative are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the statement of financial position together with the host contract.

(l) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ('reverse repo' or 'stock borrowing'), the agreement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Loans and advances are initially measured at fair value plus incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method.

(m) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale and prevent the Bank from classifying investments securities as held-to-maturity for the current and the following two financial years.

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in income when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

(n) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be reliably measured. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	20 years, straight line
Furniture, fittings and equipment	4 to 12 years, straight line

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(o) Intangible assets

Software

Software is stated at cost less accumulated amortisation and impairment losses.

Amortisation is recognised on a straight line basis over the two to five years estimated useful life of the software.

(p) Leased assets

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

All other leases are operating leases and the leased assets are not recognised on the Bank's statement of financial position.

(q) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets (see accounting policy 3 (g)), are reviewed at each reporting date to determine whether there is any indication of impair-

ment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(r) Deposits, customer accounts, debt securities issued and loans received

Deposits, customer accounts, debt securities issued, and loans received are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

When the Bank sells a financial asset and simultaneously enters into a 'repo' or 'stock lending' agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit received, and the underlying asset continues to be recognised in the Bank's financial statements.

(s) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably,

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

3. Significant accounting policies (CONTINUED)

and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

(t) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

(iii) Short-term benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

(u) Earnings per share

The Bank presents basic and diluted earnings per share ('EPS') data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted

EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of any dilutive potential ordinary shares.

(v) Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Management Board (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available (see note 6).

(w) New standards and interpretations not yet adopted

Standards issued but not yet effective or not yet adopted by the EU up to the date of issuance of the Bank's financial statements are listed below. This listing of standards and interpretations issued are those that the Bank reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Bank intends to adopt these standards when they become effective.

IFRS 7 *Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)*

The amendments contain new disclosure requirements for financial assets and liabilities that are:

- offset in the statement of financial position; or
- subject to master netting arrangements or similar agreements.

The amendments become effective for annual periods beginning on or after 1 January 2013 and for interim periods within those annual periods and should be applied retrospectively. The Bank is currently assessing the impact these amendments will have on disclosures in the financial statements.

IFRS 10 *Consolidated Financial Statements*

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:

- it is exposed or has rights to variable returns from its involvements with the investee;

- it has the ability to affect those returns through its power over that investee; and
- there is a link between power and returns.

The new standard also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008). IFRS 10 is effective for annual periods beginning on or after 1 January 2014. The Bank does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Bank's control over its investees.

IFRS 11 *Joint Arrangements*

IFRS 11, Joint Arrangements, supersedes and replaces IAS 31, Interest in Joint Ventures. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.

Under the new standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:

- a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement;
- a joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 requires additional disclosures relating to significant judgments and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities. The standard is effective for annual periods beginning on or after 1 January 2014. The Bank does not expect the new standard will have a material impact on the financial statements.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Bank is currently assessing the impact

that this standard will have on its financial position and performance. The bank does not expect the IFRS 13 to have material impact on the financial statements.

IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)*

The amendments:

- require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections;
- change the title of the Statement of comprehensive income to Statement of profit or loss and other comprehensive income, however, other titles are also allowed to be used.

The amendments are effective for annual periods beginning on or after 1 July 2012. The amendments affect presentation only and have no impact on the Bank's financial position or performance.

IAS 12 *Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)*

The amendments introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted. The amendments are effective for annual periods beginning on or after 1 January 2013. The amendments are not relevant to the Bank's financial statements, since the Bank does not have any investment properties measured using the fair value model in IAS 40.

IAS 19 *Employee Benefits (2011 Amendments to IAS 19)*

The amendments require actuarial gains and losses to be recognised immediately in other comprehensive income. The amendments remove the corridor method previously applicable to recognising actuarial gains and losses, and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendments also require the expected return on plan assets recognised in profit or loss to be calculated based on rate used to discount

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

3. Significant accounting policies (CONTINUED)

the defined benefit obligation. The amendments are effective for annual periods beginning on or after 1 January 2013. The application of these amendments will have no impact on the financial position of the Bank.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statement. The amendment becomes effective for annual periods beginning on or after 1 January 2014. The application of these amendments will not have significant impact on the financial position of the Bank.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed to IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2014. The Bank does not expect the amendment to have a material impact on its financial position or financial performance.

IAS 32 Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments are effective for annual periods beginning on or after 1 January 2014.

4. Use of estimates and judgements

These disclosures supplement the commentary on financial risk management (see note 5).

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3 (h)(vi).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits and the workout strategy and estimate of cash flows considered recoverable are independently approved by the member of the Management Board responsible for Credit Risk Management.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar economic characteristics when there is objective evidence to suggest that they contain impaired loans and advances, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

As at 31 December 2012 the Bank performed stress testing of an average PD (probability of default) parameter used in the calculation of IBNR allowances for credit losses calculated for corporate portfolio. Should an original average PD parameter of 2.77 % increase to 5.74 %, IBNR allowances for credit losses would increase by € 4,338 thousand. IBNR allowances for credit losses are portfolio allowances created for performing loans.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation

techniques as described in accounting policy 3 (h)(v). For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

Valuation of financial instruments

The Bank's policy on fair value measurement is described in note 3(h)(v).

The Bank measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

4. Use of estimates and judgements (CONTINUED)

rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which usually are developed from recognized valuation models. Some or all of the significant inputs into these models may not be

observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain over-the-counter structured derivatives, certain loans and securities for which there is no active market and retained interests in securitizations. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a control function performed by the Bank's Market risk personnel, which is independent of front office management. Specific controls include verification of observable pricing inputs and reperformance of model valuations; a review and approval process for new models and changes to models; calibration and back testing of models against observed market transactions; analysis and investigation of significant daily valuation movements; review of significant unobservable inputs and valuation adjustments.

The reported amounts of financial instruments stated at fair value analysed according to the valuation methodology at 31 December 2012 were as follows:

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets					
Trading assets	9	5 056	49 884	–	54 940
Derivative assets held for risk management	10	–	3 182	–	3 182
Investment securities	14	–	508 326	–	508 326
		5 056	561 392	–	566 448
Liabilities					
Trading liabilities	9	–	42 310	–	42 310
Derivative liabilities held for risk management	10	–	34 071	–	34 071
		–	76 381	–	76 381

The reported amounts of financial instruments stated at fair value analyzed according to the valuation methodology at 31 December 2011 were as follows:

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets					
Trading assets	9	3 456	53 432	–	56 888
Derivative assets held for risk management	10	–	1 789	–	1 789
Investment securities	14	–	558 606	–	558 606
		3 456	613 827	–	617 283
Liabilities					
Trading liabilities	9	–	45 119	–	45 119
Derivative liabilities held for risk management	10	–	21 159	–	21 159
		–	66 278	–	66 278

The Bank did not have financial assets or liabilities in the Level 3 fair value hierarchy during the years ended 31 December 2012 and 31 December 2011.

Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as 'trading', management has determined that the Bank meets the description of trading assets and liabilities set out in accounting policy 3 (j).
- In classifying financial assets as held-to-maturity, management has determined that the Bank has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3 (m)(i).

Qualifying hedge relationships

In designating financial instruments in qualifying hedge relationships, the Bank has determined that it expects the hedges to be highly effective over the period of the hedging relationship.

In accounting for derivatives as cash flow hedges, the Bank has determined that the hedged cash flow exposures relate to highly probable future cash flows.

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

5. Financial risk management

(a) Introduction

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

In addition, the Bank is exposed to operational risk from the normal course of its activities.

Information on the exposure to each of the above risks; the objectives, policies and processes for measuring and managing risk; and on the management of the Bank's capital is set out below.

Risk management framework

The Management Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. In exercising this responsibility they have established the Asset and Liability Committee ('ALCO'), the Credit Committee and the Operational Risk Committee. The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Strategy in using financial instruments

The Bank accepts deposits from customers at agreed rates and for various periods (although short-term periods are most common). The Bank seeks to earn margins by investing these funds in quality assets such as state bonds, euro-denominated corporate bonds, treasury bills and loans to customers with acceptable credit risk. Corporate loans are most common, but retail lending is steadily increasing and the Bank has a licence for granting mortgage loans. Margins are achieved either

through lending for longer periods or by using special funds with fixed rates, while liquidity risk is managed within approved limits which follow both National Bank of Slovakia ('NBS') and UniCredit S.p.A. requirements.

The Bank also trades in financial instruments (mainly state bonds and foreign currencies) where it takes positions to take advantage of short-term market movements in bond and currency prices. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

Regulatory requirements

The Bank is subject to the regulatory requirements of the National Bank of Slovakia. These requirements include limits and other restrictions concerning capital adequacy, the classification of loans and off-balance sheet liabilities, credit exposure with clients of the Bank and liquidity. These requirements apply to all banks in Slovakia and compliance is determined based on the Bank's financial reporting under Slovak statutory accounting and banking regulations.

A summary of some of the applicable requirements is as follows:

- Capital adequacy required to be at least 8 % of risk weighted assets;
- Minimum capital of EUR 16,600,000 (EUR 33,200,000 for a bank with a mortgage licence);
- Credit exposure against one non-financial entity, group of economically-related entities constituting the parent undertaking or subsidiaries of the bank, other economically-related entities or the country and the central bank, may not exceed 25 % of the Bank's capital;
- Credit exposure against a financial entity, or against a group of entities of which at least one is a financial one, may not exceed the higher of 25 % of the Bank's capital or EUR 150 million;
- Compulsory minimum reserves are calculated as 1 % of primary deposits;
- The Bank's capital defined for the purpose of these requirements includes registered capital, non-distributable reserves, retained earnings and fair value reserve less equity and participations;
- The exposure to a person connected with the Bank should not exceed specified percentages of the Bank's capital:
 - 2 % for an individual,
 - 10 % for companies.

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances

to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The responsibility for the management of credit risk is delegated to the Risk Management Division, headed by the Chief Risk Officer and reporting directly to the Management Board. Units within the Risk Management Division are responsible for managing credit risk on a portfolio as well as an individual level, in line with regulatory requirements and common Group guidelines. The main responsibilities include:

- *Formulating credit policies* in consultation with the parent company, covering collateral requirements, credit assessment, risk rating and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to Competence Levels approved by the Management Board. Larger facilities require approval by the Management Board and/or by parent company bodies as appropriate.
- *Reviewing and assessing credit risk.* All credit exposures have to be reviewed and assessed by the appropriate competence level, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and country, settlement and facility line (treasury trades).
- *Developing and maintaining the Bank's risk ratings* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk rating system is used in determining where impairment provisions may be required against specific credit exposures. The current risk rating framework consists of ten grades reflecting varying degrees of risk of default. The responsibility for setting risk rating lies with the final approving competence level as appropriate. Risk ratings are subject to regular reviews.
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Bank's senior management on the credit quality of the portfolio and appropriate corrective action is taken.

- *Promoting best practice* throughout the Bank in the management of credit risk.

Overall bank risks are regularly reviewed with measurements being provided by the ALCO and Credit Committee. The Bank manages credit risk by:

- a) applying established, clear rules for individual credit risk exposures,
- b) credit portfolio risk management.

The Bank's credit risk exposure rules include: a) placing of limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, based mainly on regulatory requirements; b) strict rules with respect to connected lending; c) rules for granting and monitoring of loans; and d) rules for the collection of past due loans. Total exposure towards one client or group of clients includes all credit risk bearing products and individual limits can be adjusted in response to a client's declining financial or non-financial position. Limit utilisation is monitored usually every two weeks.

Derivatives

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets). This credit risk exposure is managed as part of the overall lending limits with customers and counterparties, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

The Bank's credit risk represents the potential cost to replace the derivative contracts if counterparties fail to perform their obligation. This risk is monitored on an on-going basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

5. Financial risk management (CONTINUED)

instruments are favourable or unfavourable and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Exposure to credit risk	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Individually impaired						
Grade 2: Impaired	1 673	1 429	–	–	–	–
Grade 3: Impaired	12 337	19 682	–	–	–	–
Grade 4: Impaired	112 497	137 352	–	–	–	–
Grade 5: Impaired	41 459	40 653	–	–	–	–
Gross amount	167 966	199 116	–	–	–	–
Allowance for impairment	(49 925)	(59 253)	–	–	–	–
Carrying amount	118 041	139 863	–	–	–	–
Collectively impaired						
Grade 2: Impaired	1 117	1 163	–	–	–	–
Grade 3: Impaired	165	129	–	–	–	–
Grade 4: Impaired	4 505	5 940	–	–	–	–
Grade 5: Impaired	12 241	12 337	–	–	–	–
Gross amount	18 028	19 569	–	–	–	–
Allowance for impairment	(7 019)	(7 707)	–	–	–	–
Carrying amount	11 009	11 862	–	–	–	–
Past due but not impaired						
Grade 1	177 015	231 397	–	–	–	–
Gross amount	177 015	231 397	–	–	–	–
Allowance for impairment	(738)	(1 307)	–	–	–	–
Carrying amount	176 277	230 090	–	–	–	–
Past due but not impaired comprises:						
1-30 days	146 442	223 219	–	–	–	–
30-60 days	16 296	3 034	–	–	–	–
60-90 days	1 585	1 262	–	–	–	–
90-180 days	8	2 572	–	–	–	–
180 days +	6 012	3	–	–	–	–
Carrying amount	170 343	230 090	–	–	–	–
Neither past due nor impaired						
Grade1: Low-fair risk	2 613 434	2 577 056	118 204	23 314	508 326	558 606
Gross amount	2 613 434	2 577 056	118 204	23 314	508 326	558 606
Allowance for impairment	(4 809)	(5 270)	–	–	–	–
Carrying amount	2 608 625	2 571 786	118 204	23 314	508 326	558 606
Total carrying amount	2 913 952	2 953 601	118 204	23 314	508 326	558 606

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

5. Financial risk management (CONTINUED)

Impaired loans and investment securities

Impaired loans and securities are loans and advances and investment securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/investment security. Since 1 January 2011 the Bank has implemented a new methodology of loan impairment classification developed by the UniCredit Group.

Based on the guidelines, the Risk Grades have been reviewed. The former Grades 1 and 2 have merged into a new Grade 1, comprising performing loans. Grades 2, 3, 4, and 5 now make up the impaired portfolio of UniCredit Bank Slovakia, a. s.

- Grade 1 (Standard loans) comprises loans that are performing well. The overdue days may not exceed 90 and there are no other signs that the client would be unlikely to pay.
- Grade 2 (Past due) comprises loans, where payments are overdue more than 90 days but less than 180 days or show signs that the client is unlikely to pay.
- Grade 3 (Restructured) includes renegotiated or restructured loans, if the net present value of the loans has changed, or if at the time of signing the adapted agreement the loan was past due by more than 180 days or other signs of default existed.
- Grade 4 (Doubtful) is reserved for doubtful loans, usually delegated to the Special Credit division, but not yet insolvent. It should include renegotiated/restructured loans, which have become overdue by 31-360 days a second time (i.e. after signing the restructuring agreement).
- Grade 5 (Non-performing loans) comprises non-performing loans, which have become overdue by more than 360 days and/or other signs of default existed.

Past due but not impaired loans and investment securities

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified individually.

Write-off policy

The Bank writes off a loan or investment security balance (and any related allowances for impairment losses) when the Risk Division determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller-balance standardised loans, charge-off decisions generally are based on a product-specific past due status.

Set out below is an analysis of the gross and net of allowance for impairment amounts of individually impaired assets by risk grade.

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	Gross €'000	Net €'000	Gross €'000	Net €'000	Gross €'000	Net €'000
31 December 2012						
Grade 2: Individually impaired	1 673	1 028	–	–	–	–
Grade 3: Individually impaired	12 337	9 608	–	–	–	–
Grade 4: Individually impaired	112 497	93 904	–	–	–	–
Grade 5: Individually impaired	41 459	13 501	–	–	–	–
	167 966	118 041	–	–	–	–
31 December 2011						
Grade 2: Individually impaired	1 429	1 428	–	–	–	–
Grade 3: Individually impaired	19 682	13 457	–	–	–	–
Grade 4: Individually impaired	137 352	113 634	–	–	–	–
Grade 5: Individually impaired	40 653	11 344	–	–	–	–
	199 116	139 863	–	–	–	–

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair values are based on the value of collateral assessed at the time of borrowing and are periodically re-evaluated. Collateral generally is not held over loans and

advances to banks, except when securities are held as part of reverse repurchase agreements. Collateral is not held against investment securities, and no such collateral was held at 31 December 2012 or 31 December 2011.

An estimate of the fair value of collateral and other security enhancement held against financial assets is shown below:

	Loans and advances to customers	
	2012 €'000	2011 €'000
Against individually impaired		
Pledged accounts and pledged term deposits	333	–
Guarantees	187	62 989
Mortgages	99 622	71 290
Trade receivables	6 317	1 721
Pledged movables and other collateral	5 135	2 276
Against collectively impaired		
Mortgages	5 402	5 376
Trade receivables	302	290
Pledged movables and other collateral	77	143
Against past due but not impaired		
Pledged accounts and pledged term deposits	5 028	300
Guarantees	860	4 209
Mortgages	68 062	65 771
Trade receivables	16 479	20 238
Pledged movables and other collateral	14 939	19 891
Against neither past due nor impaired		
Pledged accounts and pledged term deposits	257 672	343 988
Guarantees	73 204	81 641
Mortgages	989 643	843 868
Trade receivables	273 477	163 467
Pledged movables and other collateral	91 131	162 620
	1 907 870	1 850 078

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against

loans and advances as well as calls made on credit enhancements and held at the year-end are shown below:

	2012 €'000	2011 €'000
Property	5 311	1 970
Other	289	22

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

5. Financial risk management (CONTINUED)

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations.

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of gross credit risk is shown below:

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Concentration by sector						
Government	25 309	28 729	–	–	400 232	447 912
Corporate	2 131 863	2 328 464	–	–	43 707	43 129
Bank	–	–	118 204	23 314	64 387	67 565
Retail	819 271	669 944	–	–	–	–
	2 976 443	3 027 137	118 204	23 314	508 326	558 606

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Concentration by location						
Slovak Republic	2 876 254	2 957 706	116 071	17 816	506 335	556 663
Czech Republic	30 180	10 258	–	–	1 961	1 913
Luxemburg	26 804	8 951	–	–	–	–
Croatia	12 703	15 604	–	–	–	–
Denmark	8 497	313	–	–	–	–
Poland	6 438	–	–	–	–	–
Romania	3 241	3 838	–	–	–	–
Switzerland	2 430	6 527	–	–	–	–
Austria	2 168	352	–	4 053	–	–
Great Britain	1 959	2 911	–	–	–	–
Bahamas	1 887	–	–	–	–	–
Denmark	1 267	1 918	–	–	–	–
Italy	740	1 113	–	–	–	–
Ireland	268	281	–	–	–	–
France	219	183	–	–	–	–
Netherlands	214	225	–	–	–	–
Serbia	202	798	–	–	–	–
Ukraine	120	118	–	–	–	–
Hungary	110	103	–	–	–	–
Spain	71	95	–	–	–	–
USA	57	210	–	–	–	–
Turkey	–	15 034	2 133	–	–	–
Belarus	–	–	–	1 445	–	–
Belgium	–	–	–	–	30	30
Other	614	599	–	–	–	–
	2 976 443	3 027 137	118 204	23 314	508 326	558 606

Concentration by location for loans and advances is measured based on the location of the borrower. Concentration by location of the invest-

ment securities is measured based on the location of the issuer of the security.

Loans and advances were made to customers in the following sectors:

	2012 €'000	2011 €'000
Agriculture and forestry	114 935	109 235
Industry:		
Metallurgy and machinery	220 432	248 553
Transport	139 559	211 124
Food	47 911	46 219
Energy	357 960	284 600
Construction	114 970	106 028
Chemical and pharmaceutical	84 895	57 712
Other	71 484	70 768
Trade and services	838 664	938 091
Housing	652 491	522 233
Public administration	67 027	72 542
Finance and insurance	92 142	82 575
Other industries	173 973	277 457
	2 976 443	3 027 137

The loans and advances in the Construction and Trade and services sector include also loans provided for construction or development of office, industrial and retail premises and flats in the amount of € 274,628 thousand (2011: € 221,689 thousand).

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed. The maximum amount of settlement risk is the net book value of the individual financial assets.

For certain types of transactions the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual obligations. Settlement limits form part of the credit approval/limit monitoring process. Acceptance of settlement risk on free settlement trades requires transaction-specific or counterparty-specific approval from the Bank's Risk Department.

(c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments that are settled by delivering cash or another financial asset.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan and overdraft draw-downs, guarantees and from margin and other calls e.g. cash-settled derivatives.

The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of accuracy. The Bank has a reliable historical database of withdrawals which enables it to perform a relatively accurate analysis of the stability of these types of withdrawals.

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

5. Financial risk management (CONTINUED)

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Asset and Liability Department ('ALM') receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows. ALM together with the Trading desk then maintains a portfolio of liquid assets, largely made up of liquid government securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units are met through short-term loans from ALM to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily and weekly reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted to ALCO every month.

Exposure to liquidity risk

The key measure used by the Bank for managing structural liquidity risk is the ratio defined as the cumulative gap ratio between liabilities and assets for the overall position and for the currencies EUR, USD, CHF, GBP and JPY. There are limits and trigger levels set for this liquidity ratio - for the cumulative gap over one year (limit), over three years (trigger level) and over five years (trigger level). The Bank has not specifically monitored 2 and 4 year cumulative gap since 2011. Details of the reported Bank's liquidity ratios at the reporting date and during the reporting period were as follows:

	Over 1 year	Over 2 years	Over 3 years	Over 4 years	Over 5 years
Minimum limits	0,90	no limit	0,85	no limit	0,80
31 December 2012	0,99	x	0,89	x	0,92
Average for the period	0,95	x	0,87	x	0,84
Maximum for the period	1,02	x	0,96	x	0,92
Minimum for the period	0,89	x	0,81	x	0,79

	Over 1 year	Over 2 years	Over 3 years	Over 4 years	Over 5 years
Minimum limits	0,90	0,90	0,90	0,90	0,90
31 December 2011	0,98	0,94	0,93	0,90	0,88
Average for the period	0,90	0,88	0,87	0,83	0,83
Maximum for the period	0,98	0,97	0,97	0,91	0,98
Minimum for the period	0,85	0,84	0,83	0,78	0,77

Limits: Over 1 year – limits determined by the group, Over 2, 3, 4, 5 years used as liquidity triggers.

Short term liquidity limits are applied on the cumulative liquidity gap (net flow including counterbalancing capacity). Short term liquidity limits are set for overall position and for the currencies EUR, USD, GBP, CHF, JPY and across all other currencies (i.e. minor currencies) and a total liquidity position.

The Bank's liquidity risk management framework is governed by regulations of the National Bank of Slovakia and by internal procedures

established by the Bank for liquidity management, taking into consideration the requirements of liquidity management of the UniCredit Group.

The National Bank of Slovakia's liquidity regulatory framework is based on compliance with the following ratios, with which the Bank was compliant during 2012:

- Ratio of fixed and non-liquid assets to own resources and reserves of the Bank should not exceed 1;

- Compulsory reserves should amount to a minimum of 2 % of the primary deposits and deposits of non-resident clients (bank and non-bank clients);
- Ratio of liquid assets to the sum of volatile liabilities of the Bank must not be lower than 1; and
- Ratio of loans to the sum of client deposits and debt securities issued shall not exceed 110 % based on the recommendation of the National Bank of Slovakia.

The remaining period to maturity of monetary assets and liabilities at 31 December 2012 is set out in the following table, which shows cash flows on the basis of their earliest contractual maturity. The Bank's expected cash flows may vary significantly from this analysis. For example, customer account liabilities are expected to maintain a stable or increasing balance:

	1 – 3 months €'000	4 – 12 months €'000	1 – 5 years €'000	More than 5 years €'000	Not specified €'000	Total €'000
Monetary assets						
Cash and cash equivalents	366 556	–	–	–	–	366 556
Trading assets	6 620	11 773	26 845	9 702	–	54 940
Derivative assets held for risk management	–	19	3 163	–	–	3 182
Loans and advances to banks	116 071	2 133	–	–	–	118 204
Loans and advances to customers	414 954	630 592	957 511	768 956	141 939	2 913 952
Investment securities	14 935	87 876	306 468	89 727	9 320	508 326
Corporate income tax- assets	–	–	–	–	1 785	1 785
Deferred tax asset	–	–	–	–	17 899	17 899
Other assets	–	–	–	–	3 067	3 067
Prepayments and accrued income	–	–	–	–	676	676
	919 136	732 393	1 293 987	868 385	174 686	3 988 587

	1 – 3 months €'000	4 – 12 months €'000	1 – 5 years €'000	More than 5 years €'000	Not specified €'000	Total €'000
Monetary liabilities						
Trading liabilities	1 827	10 160	23 757	6 566	–	42 310
Derivative liabilities held for risk management	53	392	16 097	17 529	–	34 071
Deposits by banks	196 869	60 009	101 044	–	–	357 922
Customer accounts	2 081 769	386 282	279 104	2 844	–	2 749 999
Loans received	20 247	5 837	173 252	49 955	–	249 291
Debt securities issued	1 375	1 262	105 878	–	–	108 515
Other liabilities	–	–	–	–	4 636	4 636
Accruals and deferred income	–	–	–	–	7 068	7 068
	2 302 140	463 942	699 132	76 894	11 704	3 553 812

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

5. Financial risk management (CONTINUED)

The remaining period to maturity of monetary assets and liabilities at 31 December 2011 was as follows:

	1 – 3 months €'000	4 – 12 months €'000	1 – 5 years €'000	More than 5 years €'000	Not specified €'000	Total €'000
Monetary assets						
Cash and cash equivalents	191 236	–	–	–	–	191 236
Trading assets	2 415	9 684	32 330	12 459	–	56 888
Derivative assets held for risk management	–	–	1 789	–	–	1 789
Loans and advances to banks	17 816	4 775	723	–	–	23 314
Loans and advances to customers	517 605	705 480	861 583	713 144	155 789	2 953 601
Investment securities	3 274	56 351	347 356	143 114	8 511	558 606
Deferred tax asset	–	–	–	–	18 625	18 625
Other assets	–	–	–	–	2 538	2 538
Prepayments and accrued income	–	–	–	–	838	838
	732 346	776 290	1 243 781	868 717	186 301	3 807 435

	1 – 3 months €'000	4 – 12 months €'000	1 – 5 years €'000	More than 5 years €'000	Not specified €'000	Total €'000
Monetary liabilities						
Trading liabilities	1 221	5 231	28 929	9 738	–	45 119
Derivative liabilities held for risk management	–	–	4 159	17 000	–	21 159
Deposits by banks	35 657	334 686	169 682	–	–	540 025
Customer accounts	1 904 261	255 632	212 095	17 631	–	2 389 619
Loans received	614	52 407	188 896	50 000	–	291 917
Debt securities issued	3 318	9 537	103 355	–	–	116 210
Other liabilities	–	–	–	–	7 452	7 452
Accruals and deferred income	–	–	–	–	5 739	5 739
	1 945 071	657 493	707 116	94 369	13 191	3 417 240

The remaining period to maturity of commitments and contingencies at 31 December 2012 is set out in the following table, in which all deriva-

tive amounts are notional amounts, except for outflow and inflow, which are shown as expected cash flows:

	1 – 3 months €'000	4 – 12 months €'000	1 – 5 years €'000	More than 5 years €'000	Total €'000
Bank guarantees	9 255	7 342	16 668	–	33 265
Customer guarantees	40 220	24 847	50 698	23 380	139 145
Customer guarantees, classified	49 337	–	–	–	49 337
Irrevocable letters of credit	11 993	1 944	–	–	13 937
Confirmed credit lines	408 391	242 333	176 354	13 556	840 634
	519 196	276 466	243 720	36 936	1 076 318

The classified customer guarantees include a guarantee in the amount of € 47,431 thousand issued in favour of the parent company for a clas-

sified corporate client (see note 22).

	1 – 3 months €'000	4 – 12 months €'000	1 – 5 years €'000	More than 5 years €'000	Total €'000
Contract/notional amount of derivative instruments					
Trading derivatives					
Outflow	125 813	72 943	22 168	2 070	222 994
Inflow	127 204	72 707	20 705	2 015	222 631
Currency derivatives					
Currency forwards and swaps	120 270	54 240	–	–	174 510
Cross currency swaps	–	–	–	–	–
Currency options	8 392	6 553	–	–	14 945
Share options	–	–	–	–	–
Commodity options	–	–	–	–	–
Interest rate derivatives					
Interest rate swaps and forward rate agreements	80 012	634 825	773 696	106 259	1 594 792
Options	–	95 785	38 296	1 955	136 036
Derivatives held for risk management					
Designated as cash flow hedges:					
Interest rate swaps	–	13 278	178 958	10 319	202 555
Designated as fair value hedges:					
Interest rate swaps	–	–	202 732	70 827	273 559
	208 674	804 681	1 193 682	189 360	2 396 397

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

5. Financial risk management (CONTINUED)

The remaining period to maturity of commitments and contingencies at 31 December 2011 are set out in the following table, in which all

derivative amounts are notional amounts, except for outflow and inflow, which are shown as expected cash flows:

	1 – 3 months €'000	4 – 12 months €'000	1 – 5 years €'000	More than 5 years €'000	Total €'000
Bank guarantees	1 306	682	8 981	3 323	14 292
Customer guarantees	16 608	34 166	54 141	21 589	126 504
Customer guarantees, classified	2 245	–	–	–	2 245
Irrevocable letters of credit	24 620	2 209	930	–	27 759
Confirmed credit lines	433 055	224 182	250 025	9 242	916 504
	477 834	261 239	314 077	34 154	1 087 304

	1 – 3 months €'000	4 – 12 months €'000	1 – 5 years €'000	More than 5 years €'000	Total €'000
Contract/notional amount of derivative instruments					
Trading derivatives					
Outflow	109 505	60 524	62 355	15 268	247 652
Inflow	110 584	59 775	60 726	15 324	246 409
Currency derivatives					
Currency forwards and swaps	89 789	26 724	–	–	116 513
Cross currency swaps	–	56	–	–	56
Currency options	22 284	10 344	–	–	32 628
Share options	–	45 599	–	–	45 599
Commodity options	–	–	–	–	–
Interest rate derivatives					
Interest rate swaps and forward rate agreements	15 299	266 333	1 151 917	286 382	1 719 931
Options	44 835	57 292	120 653	1 616	224 396
Derivatives held for risk management					
Designated as cash flow hedges:					
Interest rate swaps	–	–	63 236	17 319	80 555
Designated as fair value hedges:					
Interest rate swaps	–	–	36 208	138 956	175 164
	172 207	406 348	1 372 014	444 273	2 394 842

The estimated remaining period to maturity of monetary assets and liabilities at 31 December 2012 was as follows:

	1 – 3 months €'000	4 – 12 months €'000	1 – 5 years €'000	More than 5 years €'000	Not specified €'000	Total €'000
Monetary assets						
Cash and cash equivalents	366 564	–	–	–	–	366 564
Trading assets	130 046	74 862	26 327	6 060	–	237 295
Derivative assets held for risk management	389	3 349	5 549	4 158	–	13 445
Loans and advances to banks	116 071	–	–	–	–	116 071
Loans and advances to customers	591 160	533 429	1 124 915	1 151 604	171 655	3 572 763
Investment securities	15 149	91 145	327 366	99 940	9 319	542 919
Corporate income tax- assets	–	–	–	–	1 785	1 785
Deferred tax asset	–	–	–	–	17 899	17 899
Other assets	–	–	–	–	3 067	3 067
Prepayments and accrued income	–	–	–	–	676	676
	1 219 379	702 785	1 484 157	1 261 762	204 401	4 872 484

	1 – 3 months €'000	4 – 12 months €'000	1 – 5 years €'000	More than 5 years €'000	Not specified €'000	Total €'000
Monetary liabilities						
Trading liabilities	125 813	72 943	22 168	2 070	–	222 994
Derivative liabilities held for risk management	2 152	8 353	24 164	10 418	–	45 087
Deposits by banks	199 393	60 063	100 343	–	–	359 799
Customer accounts	786 177	551 645	992 321	431 412	–	2 761 555
Loans received	21 674	17 921	176 633	39 607	–	255 835
Debt securities issued	–	2 352	103 658	–	–	106 010
Other liabilities	–	–	–	–	4 636	4 636
Accruals and deferred income	–	–	–	–	7 068	7 068
	1 135 209	713 277	1 419 287	483 507	11 704	3 762 984

The Bank defines the estimated remaining maturity of liquid assets (securities) based on the liquidity of the individual asset. Due to the placement of liquid assets (securities) in the column with a shorter maturity than would correspond to the actual residual maturity, a discount is determined that reflects the risk associated with the quick sale of individual assets.

Derivatives are shown as a summary of net cash flows from individual derivatives in the respective time periods. Cash flows from Loans and advances to banks and customers are shown as a principal and interest repayments in the respective time periods.

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

5. Financial risk management (CONTINUED)

The estimated remaining period to maturity of monetary assets and liabilities at 31 December 2011 was as follows:

	1 – 3 months €'000	4 – 12 months €'000	1 – 5 years €'000	More than 5 years €'000	Not specified €'000	Total €'000
Monetary assets						
Cash and cash equivalents	191 236	–	–	–	–	191 236
Trading assets	14 835	4 670	27 380	10 003	–	56 888
Derivative assets held for risk management	–	–	1 789	–	–	1 789
Loans and advances to banks	17 816	4 775	723	–	–	23 314
Loans and advances to customers	532 807	562 753	946 694	755 558	155 789	2 953 601
Investment securities	346 046	48 678	83 370	72 001	8 511	558 606
Deferred tax asset	–	–	–	–	18 625	18 625
Other assets	–	–	–	–	2 538	2 538
Prepayments and accrued income	–	–	–	–	838	838
	1 102 740	620 876	1 059 956	837 562	186 301	3 807 435

	1 – 3 months €'000	4 – 12 months €'000	1 – 5 years €'000	More than 5 years €'000	Not specified €'000	Total €'000
Monetary liabilities						
Trading liabilities	1 221	5 231	28 929	9 738	–	45 119
Derivative liabilities held for risk management	–	–	4 159	17 000	–	21 159
Deposits by banks	35 657	334 686	169 682	–	–	540 025
Customer accounts	842 943	409 115	775 740	361 821	–	2 389 619
Loans received	614	52 407	188 896	50 000	–	291 917
Debt securities issued	3 318	9 537	103 355	–	–	116 210
Other liabilities	–	–	–	–	7 452	7 452
Accruals and deferred income	–	–	–	–	5 739	5 739
	883 753	810 976	1 270 761	438 559	13 191	3 417 240

The Bank defines the estimated remaining maturity of liquid assets (securities) based on the liquidity of the individual asset. Due to the placement of liquid assets (securities) in the column with a shorter ma-

turity than would correspond to the actual residual maturity, a discount is determined that reflects the risk associated with the quick sale of individual assets.

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Trading desk unit, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the Bank is transferred to the Trading desk unit. Accordingly, the foreign exchange position is treated as part of the Bank's trading portfolios for risk management purposes.

Overall authority for market risk is vested in ALCO. The Risk Integration Department is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO) and for the daily review of their implementation.

In 2012 the Bank performed stress testing in which credit and market risks were combined to simulate a financial crisis. Based on result of the stress test Bank would not have a problem to fulfil the Basel 2 capital ratios.

Exposure to market risks – trading portfolios

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). Since 1 Janu-

ary 2011 the Bank uses for VaR calculations the new group internal model IMOD. This model is based upon a 99 percent confidence level and assumes a 1-day holding period. The VaR model used is based on historical simulations. Using market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements, which are then compared to bank's trading limits.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent on the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The VaR figure represents the total market risk of the whole portfolio (interest rate risk together with foreign exchange risk and spread risk). The Bank defines VaR limits for the Trading book and also VaR warning levels for the Trading desk, ALM, Banking book and Total portfolio.

The overall structure of the VaR limits is subject to review and approval by ALCO. VaR is measured daily. Daily reports of utilisation of VaR limits are produced by the Risk Integration Department and submitted to the Trading desk, ALM and other responsible units. Regular summaries are submitted to ALCO.

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

5. Financial risk management (CONTINUED)

A summary of the VaR position of the Bank's trading portfolios at 31 December 2012 and 31 December 2011 and during the period is as follows:

	At 31 December €'000	Average €'000	Maximum €'000	Minimum €'000
2012				
Overall	72	64	205	30

	At 31 December €'000	Average €'000	Maximum €'000	Minimum €'000
2011				
Overall	38	65	166	29

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures. In addition, the Bank uses a range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position.

The Bank also monitors the Stressed VaR, i.e. VaR calculated based on a defined historical period of significant stress.

A summary of the stress testing position at 31 December 2012 and 31 December 2011 and during the period is as follows:

	At 31 December €'000	Average €'000	Maximum €'000	Minimum €'000
2012				
Overall	86	120	241	68

	At 31 December €'000	Average €'000	Maximum €'000	Minimum €'000
2011				
Overall	76	124	235	55

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates and credit spreads of Slovak government bonds. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands (basis point value limits). The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its daily monitoring activities.

The same VaR methodology used for the trading portfolios is used for management of market risks in the non-trading portfolios.

Interest rate risk

The Bank has exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may decrease or create losses in the event that unexpected movements arise. ALCO sets the basis point value limits on the level of mismatch of interest rate repricing that may be undertaken, which are monitored on a daily basis.

The Bank's interest rate risk policy reflects financial market conditions. To a large extent the Bank applies natural hedging as far as the structure and pricing of assets and liabilities is concerned. Interest rate risk is monitored and managed using repricing gap analysis, report variance analysis and spread analysis on a daily basis. The Bank does not use any kind of assumptions concerning loan prepayments and the behavior

of non-maturity deposits for monitoring and managing the interest rate risk through the repricing gap analysis. The Bank has set a limit for the total mismatch of interest rate repricing.

Establishing interest rates for the Bank's products is the responsibility of ALCO.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial as-

sets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point ('bp') parallel fall or rise in all yield curves worldwide and also other scenarios with irregular movements in yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming parallel movement in yield curves and a constant balance sheet position, and in case of a decrease a floor of 0 %) is as follows:

Sensitivity of projected net interest income

	200 bp parallel increase €'000	200 bp parallel decrease €'000	50 bp parallel increase €'000	50 bp parallel decrease €'000
2012				
At 31 December	14 905	(12 620)	3 973	(4 936)
Average for the period	27 015	(22 102)	7 062	(7 460)
Maximum for the period	36 437	(34 917)	9 481	(9 760)
Minimum for the period	14 905	(12 620)	3 973	(4 936)
2011				
At 31 December	23 823	(26 576)	6 296	(6 556)
Average for the period	26 617	(30 221)	6 990	(7 241)
Maximum for the period	29 249	(33 497)	7 676	(7 941)
Minimum for the period	23 823	(26 576)	6 296	(6 556)

The scenarios are calculated from the whole Banking book except for available-for-sale securities and cash flow hedging derivatives.

Sensitivity of reported equity to interest rate movements

	200 bp parallel increase €'000	200 bp parallel decrease €'000	50 bp parallel increase €'000	50 bp parallel decrease €'000
2012				
At 31 December	(20 628)	12 851	(5 421)	5 318
Average for the period	(24 363)	18 629	(6 387)	6 511
Maximum for the period	(28 369)	25 220	(7 412)	7 641
Minimum for the period	(20 628)	12 851	(5 421)	5 318
2011				
At 31 December	(23 377)	23 446	(6 137)	6 347
Average for the period	(22 795)	25 375	(6 000)	6 218
Maximum for the period	(26 074)	29 684	(6 857)	7 101
Minimum for the period	(18 914)	21 313	(4 980)	5 162

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

5. Financial risk management (CONTINUED)

The scenarios are calculated from the balances of available-for-sale securities and cash flow hedging derivatives.

Interest rate movements affect equity in the following ways:

- fair value reserves arising from increases or decreases in fair values of available-for-sale financial instruments reported directly in equity
- hedging reserves arising from increases or decreases in fair values of hedging instruments designated in a qualifying cash flow hedge relationship.

Overall non-trading interest rate risk positions are managed by ALM, which uses investment securities, advances to banks, deposits from

banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities.

Foreign exchange risk

The Bank also has exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank mainly manages its currency exposures within the VaR limits approved by ALCO and UniCredit Bank Austria Risk Management. ALCO also approves limits on the level of exposure by each currency and in groups of currencies of both overnight and intra-day positions, which are monitored daily.

The Bank had the following currency positions at 31 December 2012:

	Euro €'000	US dollar €'000	Other €'000	Total €'000
Assets				
Cash and cash equivalents	314 905	35 589	16 062	366 556
Trading assets	54 940	–	–	54 940
Derivative assets held for risk management	3 182	–	–	3 182
Loans and advances to banks	118 204	–	–	118 204
Loans and advances to customers	2 828 428	44 497	41 027	2 913 952
Investment securities	506 365	–	1 961	508 326
Corporate income tax- assets	1 785	–	–	1 785
Deferred tax asset	17 899	–	–	17 899
Other assets	3 067	–	–	3 067
Prepayments and accrued income	676	–	–	676
	3 849 451	80 086	59 050	3 988 587
Liabilities				
Trading liabilities	42 310	–	–	42 310
Derivative liabilities held for risk management	34 071	–	–	34 071
Deposits by banks	356 377	–	1 545	357 922
Customer accounts	2 638 582	43 893	67 524	2 749 999
Loans received	243 603	5 688	–	249 291
Debt securities issued	108 240	275	–	108 515
Other liabilities	4 636	–	–	4 636
Accruals and deferred income	7 056	12	–	7 068
	3 434 875	49 868	69 069	3 553 812

The Bank had the following currency positions at 31 December 2011:

	Euro €'000	US dollar €'000	Other €'000	Total €'000
Assets				
Cash and cash equivalents	162 491	16 985	11 760	191 236
Trading assets	56 888	–	–	56 888
Derivative assets held for risk management	1 789	–	–	1 789
Loans and advances to banks	19 261	–	4 053	23 314
Loans and advances to customers	2 902 916	21 201	29 484	2 953 601
Investment securities	556 693	–	1 913	558 606
Deferred tax asset	18 625	–	–	18 625
Other assets	2 538	–	–	2 538
Prepayments and accrued income	838	–	–	838
	3 722 039	38 186	47 210	3 807 435
Liabilities				
Trading liabilities	45 119	–	–	45 119
Derivative liabilities held for risk management	21 159	–	–	21 159
Deposits by banks	539 420	–	605	540 025
Customer accounts	2 262 979	48 892	77 748	2 389 619
Loans received	280 317	–	11 600	291 917
Debt securities issued	115 924	272	14	116 210
Other liabilities	7 447	5	–	7 452
Accruals and deferred income	5 699	40	–	5 739
	3 278 064	49 209	89 967	3 417 240

(e) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or caused by external events. Legal and compliance risk is a sub-category of operational risk; it is the risk to earnings from violations of or non-compliance with laws, rules, regulations, agreements or ethical standards. Operational risks arise from all of the Bank's operations and are faced by all business units.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost-effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management

within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of operational risk events
- requirements for the reconciliation and monitoring of operational risk events
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

5. Financial risk management (CONTINUED)

- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

There has been a Stable working group created to the Commission for operational risk as an advisory body focusing on identifying sources of operational risk and for reducing operational risk exposure of the Bank.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Management Board and the Audit Committee.

(f) Capital management

The Bank's regulator, the National Bank of Slovakia ('NBS'), as well as its ultimate parent company, UniCredit S.p.A., set and monitor capital requirements. These ratios measure capital adequacy (minimum 8 % required by NBS) by comparing either the Bank's regulatory capital or its eligible capital in accordance with UniCredit S.p.A. requirements with its balance sheet assets and off-balance sheet commitments at weighted amounts to reflect their relative risk. In accordance with the regulatory requirements of the National Bank of Slovakia, these ratios reflect credit risk and market risk.

With effect from 1 January 2008, the Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital. In accordance with the NBS decision on the Advance Measurement Approach model ('AMA'), the Bank uses the advanced approach to operational risk management with effect from 30 October 2009. The Bank uses from 1 July 2012 the internal rated based approach and the standardized approaches to credit risk management.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital includes ordinary share capital, share premium, retained earnings, translation reserve and minority interests after deductions of goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. It also includes the surplus of the sum of expected losses for individual assets, which are not in the Bank's balance sheet over the sum of losses not identified on these assets and reserves for assets, which are not in the Bank's balance sheet.
- Tier 2 capital includes qualifying subordinated liabilities and the element of the fair value reserve relating to unrealised gains / losses on instruments classified as available for sale.

Various limits are applied to elements of the capital base.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specific requirements that seek to reflect the varying levels of risk attached to the assets and off-balance sheet exposures.

The Bank's policy is to maintain a strong capital base so as to maintain shareholder, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is taken into account as the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank has complied with all externally imposed capital requirements throughout the year.

There have been no material changes in the Bank's capital management processes, systems, measurement and reporting during the year.

The Bank's regulatory capital position at 31 December was as follows:

	2012 €'000	2011 €'000
Regulatory capital		
<i>Tier 1 capital</i>		
Ordinary share capital (note 25)	235 493	235 493
Reserve funds and other funds created from profit (note 26)	43 217	40 041
Retained earnings less profit for the year (note 26)	158 869	145 632
Less: Software	(3 238)	(7 076)
Negative revaluation reserve	(396)	(13 188)
Surplus of expected losses for individual assets	(39 828)	(6 734)
Total	394 117	394 168
<i>Tier 2 capital</i>		
Positive revaluation reserve	19 358	125
Total	19 358	125
Items deductible from the regulatory capital		
Net book value of the Bank's investment in other bank or financial institutions, greater than 10 % (note 14)	(7 308)	(6 625)
IRB shortfall	(11 252)	-
	(18 560)	(6 625)
	394 915	387 668
Capital resources requirements		
Capital required to cover credit risk	206 267	213 754
Capital required to cover business partner risk	1 793	3 262
Capital required to cover risks from debt financial instruments, capital instruments, foreign exchange and commodities	1 968	2 523
Capital required to cover operational risk	16 057	15 299
Total capital resources requirements	226 085	234 838
Capital ratios		
Regulatory capital	13,97 %	13,21 %
Tier 1 capital	13,95 %	13,43 %

The calculation of expected losses (based on the NBS regulation) and the impairment allowances under the IFRS is based on the different approach in the usage of clients' collateral.

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

5. Financial risk management (CONTINUED)

Management uses the regulatory capital ratios to monitor its capital. The NBS's requirements are based on Basel II. This primarily monitors the relationship of Capital Resources Requirement (measured as 8 % of risk-weighted assets) to available capital resources.

Within the framework of the Internal Capital Adequacy Assessment Process, the Bank applies the following processes:

- Risk identification
- Risk assessment and aggregation
- Risk appetite
- Capital allocation
- Monitoring and reporting
- Risk internal governance

Risk identification

The first step for the assessment of the risk profile is the definition and identification of the risks. In addition to credit risk (including concentration risk, counterparty risk and credit migration risk and default risk in trading securities portfolio), market risk (trading and banking book), liquidity risk and operational risk, the Bank identifies financial investment risk, business risk, real estate risk, strategic risk and reputational risk.

Risk assessment and aggregation

The risk assessment implies the assessment of single risk types, their aggregation to obtain the capital. Depending on the type of risk, the Bank applies:

- Quantitative risk evaluation (credit risk, market risk, operational risk, financial investment risk, business risk, real estate risk and liquidity risk management through limits)
- Qualitative risk evaluation (strategic risk, reputational risk);

The internal capital of the Bank represents the overall capital requirement for covering the risks to which the Bank is exposed in its activities. The internal capital is expressed as the sum of the aggregated economic capital and capital cushion. The aggregated economic capital includes all types of risks which the Bank considers to be material and quantifiable in compliance with the requirements of Pillar 2: credit risk, market risk, operational risk, business risk, real estate risk and financial investment risk. The capital cushion represents the additional capital required to face the measurement risks inherent in any model and the impact of economic cycle on capital requirements.

Available financial resources ('AFR') are resources that Bank has at its disposal for covering unexpected losses from risks. The capital surplus represents the difference between the AFR and the internal capital. This reserve covers the possible increased risk appetite of the Bank, acquisition plans etc.

Risk appetite

Risk Appetite can be defined as the variability in results, on both a short and a long term, which an organization and its senior executives are prepared to accept in support of a stated strategy. In other terms, Risk Appetite embodies that risk and returns combination whereby the metrics capacities are directly related to strategy.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The goal is to manage the business mix through capital allocation to business units based on value creation targets. The allocated capital is calculated during the budget and the strategic planning processes, and absorbed capital during the control process. The Bank uses the following value creation indicators: Economic Value Added ('EVA') and Risk Adjusted Return On Risk Adjusted Capital ('RARORAC').

Although maximisation of the return on risk-adjusted capital is the principal basis used to determine how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision-making. Also taken into account are synergies with other operations and activities, the availability of management and other resources, and how the activity fits with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Management Board.

Monitoring and reporting

Capital adequacy is a dynamic cycle that requires a continuous monitoring in order to provide feedback to the decision-making processes. Further to monitoring, a strong and proper communication process is needed, both for management purposes and disclosure to external stakeholders, above all regulators. Within the framework of internal capital adequacy monitoring under Pillar 2, the Bank monitors the development of Risk Taking Capacity on quarterly basis. The principle is that the AFR must always cover the internal capital.

Within the framework of regular reporting, the Bank compares the results of Pillar 1, i.e. risk weighted assets, capital requirement (regulatory capital), own funds and capital adequacy with the results of Pillar 2, i.e. capital requirement (economic capital or internal capital), AFR and Risk Taking Capacity. This report is prepared by the Risk Integration Department in cooperation with the Statistics and Reporting, Strategic Credit Risk Management and Planning and Controlling Departments on a quarterly basis. The ALCO, Management Board and Supervisory Board of the Bank receive this report on a regular basis.

Risk internal governance

Capital adequacy management is one of the key processes of the UniCredit Group and therefore requires proper risk governance that relies on ensuring that senior management is involved and that ICAAP activities are properly allocated to organizational functions. The ultimate responsibility for capital adequacy rests with the Management Board because it requires the setting of the risk appetite and steering of the allocation of the scarce resource of the available capital. Senior management identifies the relevant bodies/structures involved in the capital adequacy process and the consequent reporting to the competent decision making body. The ICAAP process is subject to internal audit review.

Capital adequacy requirements for 2012

On 16 January 2012 the Financial Market Supervision Unit of the National Bank of Slovakia issued the Recommendation No 1/2012 on supporting the stability of the banking sector ("Recommendation"). This Recommendation was issued in line with the requirements of the European Banking Authority from the end of 2011. Based on this Recommendation, the Bank has decided to maintain its Tier 1 capital ratio at a level not lower than 9 % at least during the period until the reasons why the Recommendation was issued by the NBS will disappear. At the same time the Bank has decided to maintain its capital adequacy level in line with the results of the joint decision of supervisory authorities on internal capital adequacy assessment process evaluation.

6. Operating segments

The Bank has three basic reportable segments, as described below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Bank's management and internal reporting structure. For each of the strategic business units, the Management Board reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Bank's reportable segments:

Corporate and Markets includes the loans, deposits and other transactions and balances with corporate customers and financial institutions (excluding small enterprises), trading activities and sales activities with customers;

Retail and Private includes the loans, deposits and other transactions and balances with retail customers (including small enterprises);

Others includes Asset Liabilities Management activities that contain the Group's funding and centralized risk management activities through borrowings, use of derivatives for banking book management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities.

Segment reporting is presented in respect of the Bank's business segments. The Bank principally operates in Slovakia. Operations outside Slovakia are not significant.

The measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in note 3.

Transactions between segments are conducted at arm's length.

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise cash, property and equipment, investment securities, intangible assets, taxes, other assets and prepayments, provisions and other liabilities.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

6. Operating segments (CONTINUED)

	Total Bank 2012 €'000	Retail and Private 2012 €'000	Corporate and Markets 2012 €'000	Others 2012 €'000
Net interest income	75 488	33 678	56 512	(14 702)
Internal revenue	–	1 049	4 835	(5 884)
Net fee and commission income	32 760	12 913	19 949	(102)
Net trading income	9 442	4 017	3 953	1 472
Other income	452	–	–	452
Non-interest income	42 654	16 930	23 902	1 822
Total segment revenue	118 142	50 608	80 414	(12 880)
Operating expenditure	(86 523)	(45 928)	(29 168)	(11 427)
Operating profit before impairment and provisions	31 619	4 680	51 246	(24 307)
Impairment losses/net release of impairment losses	4 302	–	–	4 302
Provisions	(19 403)	–	–	(19 403)
Profit before taxation	16 518	4 680	51 246	(39 408)
Income tax expense	(916)	–	–	–
Profit after taxation	15 602			
Other information:				
Reportable segment assets	4 027 134	932 965	2 035 046	1 059 123
Reportable segment liabilities	3 576 616	1 268 228	1 420 825	887 563

	Total Bank 2011 €'000	Retail and Private 2011 €'000	Corporate and Markets 2011 €'000	Others 2011 €'000
Net interest income	85 972	37 226	55 455	(6 709)
Internal revenue	–	506	2 648	(3 154)
Net fee and commission income	28 702	12 340	13 883	2 479
Net trading income	7 713	3 938	5 609	(1 834)
Other income	641	–	–	641
Non-interest income	37 056	16 278	19 492	1 286
Total segment revenue	123 028	53 504	74 947	(5 423)
Operating expenditure	(72 512)	(44 123)	(25 981)	(2 408)
Operating profit before impairment and provisions	50 516	9 381	48 966	(7 831)
Impairment losses/net release of impairment losses	(12 987)	–	–	(12 987)
Provisions	1 254	–	–	1 254
Profit before taxation	38 783	9 381	48 966	(19 564)
Income tax expense	(7 028)			
Profit after taxation	31 755			
Other information:				
Reportable segment assets	3 850 967	781 551	2 242 683	826 733
Reportable segment liabilities	3 422 494	1 260 013	1 077 891	1 084 590

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

7. Cash and cash equivalents

	2012 €'000	2011 €'000
Cash and balances at the central bank (note 8)	51 959	50 839
Loans and advances to banks with contractual maturity up to 3 months (note 11)	314 597	140 397
	366 556	191 236

8. Cash and balances at the central bank

	2012 €'000	2011 €'000
<i>Balances with the National Bank of Slovakia:</i>		
Compulsory minimum reserve	116 071	17 816
Cash in hand	51 959	50 839
	168 030	68 655
Less compulsory minimum reserve (note 11)	(116 071)	(17 816)
	51 959	50 839

The compulsory minimum reserve balance is maintained in accordance with the requirements of the National Bank of Slovakia and is not available for day-to-day use.

9. Trading assets and liabilities

	2012 €'000	2011 €'000
Trading assets		
Securities (a)	13 210	13 505
Derivative instruments (b)	41 730	43 383
	54 940	56 888
Trading liabilities		
Derivative instruments (b)	42 310	45 119

(a) Securities

Slovak government bonds	8 155	10 049
German government bond	5 055	3 456
	13 210	13 505

(b) Derivative instruments

	Contract/ notional amount €'000	2012 Fair value		Contract/ notional amount €'000	2011 Fair value	
		Assets €'000	Liabilities €'000		Assets €'000	Liabilities €'000
Currency derivatives						
Currency forwards and swaps	174 510	2 699	679	117 241	1 905	1 311
Cross currency swaps	–	–	–	56	4	5
Currency options	14 945	496	496	32 627	1 154	1 154
Share options	–	–	–	45 599	1 711	1 739
Interest rate derivatives						
Interest rate swaps and forward rate agreements	1 594 792	37 178	39 778	1 719 931	36 202	38 503
Options	136 036	1 357	1 357	224 396	2 407	2 407
	1 920 283	41 730	42 310	2 139 850	43 383	45 119

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

10. Derivatives held for risk management

	Contract/ notional amount €'000	2012 Fair value		Contract/ notional amount €'000	2011 Fair value	
		Assets €'000	Liabilities €'000		Assets €'000	Liabilities €'000
Designated as cash flow hedges:						
Interest rate swaps	202 555	3 163	5 491	80 555	1 727	3 811
Currency swaps	2 041	19	53	2 041	62	–
Designated as fair value hedges:						
Interest rate swaps	273 559	–	28 527	175 164	–	17 348
	478 155	3 182	34 071	257 760	1 789	21 159

The time periods in which the hedged cash flows are expected to occur and affect the statement of comprehensive income are as follows:

	Within 1 year €'000	1 – 5 years €'000	Over 5 years €'000
31 December 2012			
Cash inflows	184	689	–
Cash outflows	465	1 554	203
31 December 2011			
Cash inflows	168	381	–
Cash outflows	1 022	2 135	450

During 2012, a net amount of € 60 thousand (2011: net amount of € 1,571 thousand) relating to the effective portion of cash flow hedges was recognised in other comprehensive income.

11. Loans and advances to banks

	2012 €'000	2011 €'000
Repayable on demand	295 098	21 333
Other loans and advances by remaining maturity:		
– 3 months or less	19 499	119 064
– 1 year or less but over 3 months	2 133	4 775
– over 1 year	–	723
Compulsory minimum reserve (note 8)	116 071	17 816
	432 801	163 711
Less amounts with contractual maturity up to 3 months (note 7)	(314 597)	(140 397)
	118 204	23 314

12. Loans and advances to customers

	2012 €'000	2011 €'000
Repayable on demand	5 150	5 204
Other loans and advances to customers by remaining maturity:		
– 3 months or less	472 295	512 401
– 1 year or less but over 3 months	630 592	779 018
– 5 years or less but over 1 year	957 511	861 583
– over 5 years	768 956	713 144
– not specified	141 939	155 787
	2 976 443	3 027 137
Allowances for impairment (note 13)	(62 491)	(73 536)
	2 913 952	2 953 601

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

12. Loans and advances to customers (CONTINUED)

The exposure to the various business segments of loans and advances to customers according to main product types is as follows:

	2012			2011		
	Gross amount €'000	Impairment allowances €'000	Carrying amount €'000	Gross amount €'000	Impairment allowances €'000	Carrying amount €'000
Retail customers						
Mortgage lending	700 687	(1 532)	699 155	566 820	(1 269)	565 551
Personal loans	38 083	(716)	37 367	26 174	(796)	25 378
Credit cards	5 009	(289)	4 720	5 815	(644)	5 171
Other	48 634	(2 839)	45 795	37 961	(637)	37 324
Corporate customers						
Small business	144 435	(8 427)	136 007	148 693	(9 736)	138 957
Corporate	1 077 225	(47 525)	1 029 701	985 754	(41 007)	944 747
Large corporate	757 378	(547)	756 831	919 404	(557)	918 847
Real estate	204 992	(616)	204 376	336 516	(18 890)	317 626
	2 976 443	(62 491)	2 913 952	3 027 137	(73 536)	2 953 601

13. Impairment losses on loans and advances

The movements in impairment losses on loans and advances to customers were as follows:

	2012 €'000	2011 €'000
Specific allowances for impairment:		
At 1 January	59 253	47 787
(Release)/charge for the year	(1 337)	13 369
Release of impairment losses on loans written-off	(7 991)	(1 903)
At 31 December	49 925	59 253
Collective allowances for impairment:		
At 1 January	14 283	16 403
(Release)/charge for the year	(1 717)	(769)
Release of impairment losses on loans written-off	–	(1 351)
At 31 December	12 566	14 283
Total allowances for impairment	62 491	73 536

14. Investment securities

	2012 €'000	2011 €'000
Debt securities held to maturity (a)	71 900	122 421
Debt securities available for sale (b)	429 068	429 510
Equity shares available for sale (c)	7 358	6 675
	508 326	558 606

At 31 December 2012, debt securities available for sale in amount of € 66,314 thousand (2011: € 51,695 thousand) were pledged as collateral to the National Bank of Slovakia for inter-day credit and of € 113,719 thousand (2011: € 109,378 thousand) as collateral to the

National Bank of Slovakia for refinancing. The Bank has pledged investment securities of € 58,077 thousand for a loan received from the European Investment Bank (2011: € 67,277 thousand). See note 20.

(a) Debt securities held to maturity

	2012 €'000	2011 €'000
Slovak government bonds	27 567	74 578
Slovak corporate and bank bonds	44 333	47 843
	71 900	122 421

At 31 December 2012, the fair value of held-to-maturity securities was € 72 million (2011: € 120.3 million).

(b) Debt securities available for sale

	2012 €'000	2011 €'000
Slovak government bonds	372 666	373 411
Slovak corporate and bank bonds	54 440	54 186
Participation certificate AXA	1 961	1 913
	429 068	429 510

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

14. Investment securities (CONTINUED)

(c) Equity shares available for sale

Name	Activity	2012 €'000	2011 €'000
RVS, a.s.	Conference and leisure	–	–
S.W.I.F.T.	International funds Transfer	29	29
BCPB, a.s.	Stock exchange	21	21
UniCredit Leasing Slovakia, a.s.	Financial services	6 625	6 625
MasterCard Incorporated	Financial services	–	–
Visa Europe Limited	Financial services	–	–
UniCredit CAIB Slovakia, a. s.	Advisory services	683	–
		7 358	6 675

The Bank owns 100 % of the issued capital of UniCredit CAIB Slovakia, a. s., 19.9 % of UniCredit Leasing Slovakia a. s. and 2.63 % of RVS, a.s. Holdings in other companies are less than 1 %. SWIFT is registered in Belgium, MasterCard in the USA and Visa in the UK. Other companies

are incorporated in the Slovak Republic. The Bank acquired a 100 % share in UniCredit CAIB Slovakia, a.s. in August 2012. As the Bank's investment in this company is not material, the Bank has not prepared consolidated financial statements.

The movements in available-for-sale securities during the year were as follows:

	2012 €'000	2011 €'000
As at 1 January	436 185	478 785
Additions	129 847	275 054
Disposals	(157 975)	(288 142)
Profit/ (Loss) from changes in fair value	28 369	(29 512)
As at 31 December	436 426	436 185

There was no impairment of investment securities in 2012 or in 2011.

15. Property and equipment

	Land and buildings €'000	Furniture, fittings and equipment €'000	Assets not yet in use €'000	Total €'000
Cost				
At 1 January 2011	55 717	42 852	620	99 189
Additions	–	–	1 201	1 201
Transfers	445	399	(844)	–
Disposals	(827)	(13 922)	–	(14 749)
At 31 December 2011	55 335	29 329	977	85 641
At 1 January 2012	55 335	29 329	977	85 641
Additions	–	–	3 026	3 026
Transfers	364	439	(803)	–
Disposals	(2 006)	(1 752)	–	(3 758)
At 31 December 2012	53 693	28 016	3 200	84 909
Depreciation and impairment losses				
At 1 January 2011	21 792	34 312	–	56 104
Charge for the year	2 715	2 457	–	5 172
Net creation of impairment losses	568	(235)	–	333
Disposals	(466)	(11 949)	–	(12 415)
At 31 December 2011	24 609	24 585	–	49 194
At 1 January 2012	24 609	24 585	–	49 194
Charge for the year	2 664	1 889	–	4 553
Net reversal of impairment	(1 303)	(61)	–	(1 364)
Disposals	(1 064)	(1 719)	–	(2 783)
At 31 December 2012	24 906	24 694	–	49 600
Value after depreciation				
At 31 December 2011	30 726	4 744	977	36 447
At 31 December 2012	28 787	3 322	3 200	35 309

The Bank reversed impairment losses of € 1,364 thousand (2011: created net additional provisions of € 333 thousand) on certain property and equipment.

The Bank's buildings and equipment are insured against fire, burglary, floods and storms for their replacement value as at year-end. The insurance premium is calculated based on the acquisition price as at 31 December of the previous period.

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

16. Intangible assets

	Software €'000	Assets not yet in use €'000	Total €'000
Cost			
At 1 January 2011	57 143	1 686	58 829
Additions	–	878	878
Transfers	1 866	(1 866)	–
Disposals	(28 696)	(139)	(28 835)
At 31 December 2011	30 313	559	30 872
At 1 January 2012	30 313	559	30 872
Transfers	559	(559)	–
Disposals	(1)	–	(1)
At 31 December 2012	30 871	–	30 871
Amortisation and impairment losses			
At 1 January 2011	43 687	–	43 687
Charge for the year	3 666	–	3 666
Disposals	(23 566)	–	(23 566)
At 31 December 2011	23 787	–	23 787
At 1 January 2012	23 787	–	23 787
Charge for the year	3 846	–	3 846
Disposals	–	–	–
At 31 December 2012	27 633	–	27 633
Value after amortisation			
At 31 December 2011	6 526	559	7 085
At 31 December 2012	3 238	–	3 238

In January 2011 the Bank sold selected Information and communication technologies ('ICT') assets to UGIS Slovak Branch, as a part of the consolidation process of the ICT operations of UniCredit Group into a unique global ICT company, UGIS. The Bank reversed amortisation

and impairment losses of € 35,515 thousand on those tangible and intangible assets. The assets were sold for € 7,321 thousand, on which the Bank realized a profit of € 271 thousand.

17. Other assets

	2012 €'000	2011 €'000
Inventory	370	378
Operating prepayments	590	411
Receivables	2 238	1 804
	3 198	2 593
Impairment losses	(131)	(55)
	3 067	2 538

The movements on specific allowances for impairment on other assets were as follows:

	2012 €'000	2011 €'000
At 1 January	55	54
Increase for the year	116	55
Write-offs	(40)	(54)
	131	55

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

18. Deposits by banks

	2012 €'000	2011 €'000
Repayable on demand	26 195	28 880
Other deposits by banks with remaining maturity:		
– 3 months or less	170 674	6 777
– 1 year or less but over 3 months	60 009	334 686
– over 1 year	101 044	169 682
	357 922	540 025

	2012 €'000	2011 €'000
Current accounts	24 765	28 357
Term deposits	332 858	511 037
Other liabilities	299	631
	357 922	540 025

19. Customer accounts

	2012 €'000	2011 €'000
Repayable on demand	1 672 753	1 331 342
Other deposits with agreed maturity dates or periods of notice, by remaining maturity:		
– 3 months or less	409 016	572 919
– 1 year or less but over 3 months	386 282	255 632
– 5 years or less but over 1 year	279 104	212 095
– over 5 years	2 844	17 631
	2 749 999	2 389 619

19. Customer accounts (CONTINUED)

	2012 €'000	2011 €'000
Current accounts	1 665 322	1 325 461
Term deposits	929 702	798 343
Savings accounts	19 992	25 379
Current accounts from municipalities	7 431	5 880
Term deposits from municipalities	51 034	101 272
Loans received	17 716	60 993
Bills of exchange issued	4 376	15 194
Other liabilities	54 426	57 097
	2 749 999	2 389 619

20. Loans received

	2012 €'000	2011 €'000
European Bank for Reconstruction and Development	14 997	8 942
European Investment Bank	208 054	220 205
UniCredit Bank Austria AG, Vienna	20 000	50 128
EXIM Taiwan	5 688	11 600
Slovenská záručná a rozvojová banka, a.s.	552	1 042
	249 291	291 917

European Bank for Reconstruction and Development

These loans comprise amounts drawn down by the Bank under loan facilities with the European Bank for Reconstruction and Development ('EBRD'). Amounts were provided by the EBRD to assist in the development of small and medium-size enterprises (SMEs) in Slovakia.

The euro loans of € 15 million principal at the balance sheet date (2011: € 9 million) were provided under three contracts (two of 3 million and one of 9 million) with contract date August, October and December 2012. One of the contracts was prolonged from the previous year. Principal and interest repayments are due semi-annually. The loans mature on 5 February 2013 and bear interest at annual rates from 1.2457 % to 1.757 %.

European Investment Bank

The amounts due to the European Investment Bank ('EIB') comprise loans of € 6.818 million, € 17.500 million, € 53.689 million, € 80 million, € 30

million and € 20 million, drawn down by the Bank under loan facilities arranged by the NBS with the EIB. The loans were provided by the EIB to assist in the development of infrastructure, agriculture and tourism in Slovakia. The loans are secured by investment securities. See note 14.

The first loan of € 6.818 million principal at the balance sheet date was provided under a contract entered into on 28 March 2003. Interest is payable quarterly, principal semi-annually. The loan bears interest at an annual rate equivalent of 0.313 % and it matures on 16 June 2014.

The second loan of € 17.500 million principal at the balance sheet date was provided under a contract entered into on 28 March 2003. Interest is payable quarterly, principal semi-annually. The loan bears interest at an annual rate equivalent of 0.313 % and it matures on 15 June 2016.

The third loan of € 53.689 million principal at the balance sheet date was provided under a contract entered into on 7 February 2008. Inter-

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

20. Loans received (CONTINUED)

est is payable annually and principal will be repaid in one instalment on 15 March 2016. The loan bears interest at an annual rate of 0.313 %.

The fourth loan of € 80 million principal at the balance sheet date was provided under a contract entered into on 7 July 2011. Interest is payable quarterly, principal semi-annually. The loan bears interest at an annual rate of 0.607 % and it matures on 18 January 2016.

The fifth loan of € 30 million principal at the balance sheet date was provided under a contract entered into on 27 September 2011. Interest and principal are payable quarterly. The loan bears interest at an annual rate of 0.829 % and it matures on 31 October 2023.

The sixth loan of € 20 million principal at the balance sheet date was provided under a contract entered into on 27 September 2011. Interest and principal are payable quarterly. The loan bears interest at an annual rate of 0.912 % and it matures on 30 November 2023.

UniCredit Bank Austria AG, Vienna

The amount due to UniCredit Bank Austria AG, Vienna comprises a loan of € 20 million under a contract entered into on 31 December 2012. Interest and principal was repaid in one instalment on 2 January 2013. The loan bore interest at an annual rate of 0.15 %.

EXIM Taiwan (Export-Import Bank of the Republic of China)

The amount due to EXIM Taiwan comprises a loan of USD 7,5 million (2011: USD 15 million) under a contract entered into on 2 September 2010. The maturity date is 10 October 2013. Interest and principal are payable semi-annually. The loan bears interest at an annual rate of 0.50 %.

Slovenská záručná a rozvojová banka, a. s.

The loans from Slovenská záručná a rozvojová banka, a. s. ('SZRB') were obtained under the programme Rozvoj ('Development') for long and medium term assistance to small-to-medium size enterprises.

Under the Rozvoj ('Development') programme, separate loan agreements are also entered into between the Bank and SZRB for loans provided to customers. Interest is currently 1.50 % – 3.70 % per annum and the repayment terms are in accordance with each individual contract. Should the customer default, the Bank is responsible for full repayment of the loan provided by SZRB.

Under the terms of the programme, SZRB may request early repayment in the event of non-fulfilment of several conditions, including if the loans are not used for the specified purpose or if there is delay in repayment of the principal.

21. Debt securities issued

	2012 €'000	2011 €'000
Mortgage bonds		
Issue 1 (b)	16 861	16 861
Issue 2	16 809	16 809
Issue 3 (a)	16 604	16 626
Issue 5	30 094	30 185
Issue 6	20 011	20 022
	100 379	100 503
Long-term bills	8 136	15 707
Debt securities issued	108 515	116 210

Issue 1 (b) comprises 5,000 bonds with a nominal value of € 3.3 thousand each, which were issued on 28 August 2003 with a coupon of 4.65 % per annum by HVB Bank Slovakia a.s. The bonds will be redeemed on 28 August 2014 from repayments of mortgage loans provided to customers.

Issue 2 comprises 500 bonds with a nominal value of € 33.2 thousand each, which were issued on 29 September 2004 with a coupon of 5 % per annum by UniBanka, a. s. The bonds will be redeemed on 29 September 2015 from repayments of mortgage loans provided to customers.

Issue 3 (a) comprises 5,000 bonds with a nominal value of € 3.3 thousand each, which were issued on 25 May 2005 with a coupon of 6M BRIBOR + 0.07 % per annum by UniBanka, a. s. The bonds will be redeemed on 25 May 2015 from repayments of mortgage loans provided to customers.

Issue 5 comprises 3,000 bonds with a nominal value of € 10 thousand each, which were issued on 13 October 2010 with a coupon of 6M EURIBOR + 1.00 % per annum. The bonds will be redeemed on 13 October 2015 from repayments of mortgage loans provided to customers.

Issue 6 comprises 2,000 bonds with a nominal value of € 10 thousand each, which were issued on 17 December 2010 with a coupon of 6M EURIBOR + 1.00 % per annum by. The bonds will be redeemed on 17 December 2015 from repayments of mortgage loans provided to customers.

Long-term bills comprise bills of exchange sold to customers with maturity longer than one year.

The Bank has not had any defaults on principal, interest or other breaches with respect to its debt securities during 2012 and 2011.

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

22. Provisions

The movements in provisions were as follows:

	Litigations €'000	Other €'000	Total €'000
At 1 January 2011	5 546	3 168	8 714
(Decrease)/increase for the year	(1 388)	134	(1 254)
Usage for the year	(2 558)	(1)	(2 559)
At 31 December 2011	1 600	3 301	4 901
At 1 January 2012	1 600	3 301	4 901
(Decrease)/increase for the year	(100)	19 503	19 403
Usage for the year	(1 500)	–	(1 500)
At 31 December 2012	–	22 804	22 804

Litigations

This provision related to claims and court cases that the Bank was defending.

Other

This provision relates to credit cards, other liabilities related to operational and credit risks and credit risk participations.

Credit risk participation in the total amount of € 47,431 thousand was granted for one corporate client. Formerly the Bank provided the loan to the client and received an interbank guarantee from UniCredit Bank Austria. The loan was transferred to UniCredit Bank Austria in September 2012 and the Bank provided a guarantee to the parent company. The Bank released the respective loan loss allowances and created the provision in the same amount of € 20,554 thousand.

23. Corporate income tax

	2012 €'000	2011 €'000
Tax payable for the current period (note 33)	5 118	6 933
Tax prepayments	(6 903)	(6 580)
Corporate income tax (receivable)/payable	(1 785)	353

24. Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	Assets/(liabilities) 2012 €'000	Assets/(liabilities) 2011 €'000
Available-for-sale securities	418	5 452
Property and equipment	145	351
Provisions	5 290	583
Impairment losses on loans	11 668	11 956
Cash flow hedge	378	283
Deferred tax asset	17 899	18 625

The deferred tax assets have been calculated using a corporate income tax rate of 23 % (2011: 19 %).

The movements in deferred tax were as follows:

	2012 €'000	2011 €'000
At 1 January	18 625	12 788
Charge to profit or loss (note 33)	4 214	(25)
Charge to other comprehensive income	(4 940)	5 862
At 31 December	17 899	18 625

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

25. Share capital

	2012 €'000	2011 €'000
Authorised, issued and fully paid: 38,353,859 ordinary shares of € 6.14 each	235 493	235 493

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Bank.

26. Reserves

	Retained earnings €'000	Legal reserve fund €'000	Fair value reserve €'000	Cash flow hedge reserve €'000	Total €'000
At 31 December 2011	177 387	40 041	(23 243)	(1 205)	192 980
Dividends (a)	(15 342)		–	–	(15 342)
Transfers (b)	(3 176)	3 176	–	–	–
Available-for-sale assets:					
Change in fair value, net of tax	–	–	19 570	–	19 570
Net amount transferred to profit or loss	–	–	2 274	–	2 274
Cash flow hedges:					
Effective portion of changes in fair value, net of tax	–	–	–	(60)	(60)
Net amount transferred to profit or loss	–	–	–	–	–
Profit for 2012	15 602	–	–	–	15 602
At 31 December 2012	174 471	43 217	(1 399)	(1 265)	215 024

26. Reserves (CONTINUED)

(a) Dividends

The General Meeting of Shareholders held on 23 April 2012 approved dividends to be paid from the profit for the year ended 31 December 2011 in amount of € 15,342 thousand.

(b) Legal reserve fund

The General Meeting also approved the transfer to the legal reserve fund of € 3,176 thousand from the 2011 profit.

Under the Slovak Commercial Code, all companies are required to maintain a legal reserve fund to cover future losses. The Bank is obliged to contribute an amount to the fund each year which is not less than 10 % of its annual net profit until the aggregate amount reaches a minimum level equal to 20 % of the issued share capital.

(c) Proposed allocation of profit

The Management Board will propose the following profit allocation for the year ended 31 December 2012:

	€'000
Transfer to legal reserve fund	1 560
Dividends	–
Retained earnings	14 042
	15 602

(d) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised or impaired.

(e) Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of cumulative net changes in the fair value of cash flow hedging instruments related to hedged transactions that have not yet affected profit or loss.

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

27. Off balance sheet items

	2012 €'000	2011 €'000
<i>Contingent liabilities:</i>		
Bank guarantees	33 265	14 292
Customer guarantees	139 145	126 504
Customer guarantees, classified	49 337	2 245
Irrevocable letters of credit	13 937	27 759
<i>Commitments:</i>		
Confirmed credit lines	840 634	916 504
<i>Derivative instruments:</i>		
Trading assets and liabilities (note 9)	1 920 283	2 139 850
Held for risk management (note 10)	478 155	257 760
	3 474 756	3 484 914

The Bank is able to cancel the confirmed credit lines in case of the contract breach.

The classified customer guarantees include a guarantee in the amount of € 47,431 thousand issued in favour of the parent company for a classified corporate client (see note 22).

28. Interest income

	2012 €'000	2011 €'000
Loans and advances to banks	1 495	4 496
Loans and advances to customers	105 786	111 160
Investment securities	16 790	18 738
	124 071	134 394

Interest income for the year ended 31 December 2012 includes interest of € 3,959 thousand accrued on impaired financial assets (2011: € 4,336 thousand).

Included within interest income for the year ended 31 December 2012 is total interest of € 3,046 thousand relating to debt securities held-to-maturity (2011: € 4,348 thousand).

29. Interest expense

	2012 €'000	2011 tis. €'000
Deposits by banks	10 128	10 815
Customer accounts	30 168	25 992
Loans received	4 980	8 009
Mortgage bonds	2 915	3 279
Long-term bills	392	327
	48 583	48 422

Included within interest expense for the year ended 31 December 2012 are fair value losses of € 14,980 thousand (2011: € 16,661 thousand) on derivatives held in qualifying fair value hedging relationships, and € 10,285 thousand (2011: € 14,286 thousand) representing net increases in the fair value of the hedged item attributable to the hedged risk.

The only components of interest income and expense reported above that relate to financial assets or liabilities carried at fair value through

profit or loss are the interest income and expense on derivative assets and liabilities held for risk management purposes.

During 2012 no gains (2011: € 868) and no losses (2011: € 382) relating to cash flow hedges were transferred from the hedging reserve to other comprehensive income and are reflected in interest income or expense. There was no significant ineffectiveness recognised on cash flow hedges during 2012 or 2011.

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

30. Net fee and commission income

	2012 €'000	2011 €'000
Fee and commission income:		
Corporate banking credit related fees	22 403	18 942
Retail and Private banking customer fees	16 464	16 560
Other	1 005	(84)
Total fee and commission income	39 872	35 418
Fee and commission expense:		
Corporate banking fees	(2 454)	(2 609)
Retail and Private banking fees	(3 551)	(2 600)
Other	(1 107)	(1 507)
Total fee and commission expense	(7 112)	(6 716)
Net fee and commission income	32 760	28 702

31. Net trading income

	2012 €'000	2011 €'000
Net income from foreign exchange operations	3 867	938
Net income from derivatives (a)	2 651	4 975
Net income from securities (b)	2 924	1 800
	9 442	7 713

(a) Net income from derivatives

	2012 €'000	2011 €'000
Income from currency derivatives	1 342	3 831
Losses relating to currency derivatives	(5)	(15)
Net income from currency derivatives	1 337	3 816
Income from interest rate derivatives	21 570	25 808
Losses relating to interest rate derivatives	(20 558)	(25 371)
Net income from interest rate derivatives	1 012	437
Income from options	8 544	11 855
Losses relating to options	(8 242)	(11 133)
Net income from options	302	722
	2 651	4 975

b) Net income from securities

	2012 €'000	2011 €'000
Gains from securities	3 306	2 836
Losses from securities	(382)	(1 036)
	2 924	1 800

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

32. Administrative expenses

	2012 €'000	2011 €'000
<i>Employee costs:</i>		
Wages and salaries	20 413	21 176
Social insurance	7 140	7 036
Other personnel expenses	3 388	2 880
	30 941	31 092
Service-related expenses	18 238	17 147
Material-related expenses	2 253	2 160
Rent	4 434	4 265
Marketing expenses	3 566	3 767
Operating fees	415	409
Other services	2 721	2 505
Bank Levy	14 108	–
Other administrative expenses	1 448	2 329
	47 183	32 582
	78 124	63 674

The cost of services provided by the statutory auditor during the year ended 31 December 2012 and 2011 was as follows:

	2012 €'000	2011 €'000
Statutory audit (including regulatory reporting to NBS)	247	257

During the year 2012, the average number of full time employees was 1,169 (2011: 1,182).

Other administrative expenses include payments to the Deposit Protection Fund of € 1,097 thousand in 2012 (2011: € 1,973 thousand).

Movements in the social fund account included in Other personnel expenses were as follows:

	2012 €'000	2011 €'000
At 1 January	344	635
Creation of social fund	899	851
Use of social fund	(1 085)	(1 142)
At 31 December	158	344

33. Income tax expense

	2012 €'000	2011 €'000
<i>Current tax expense</i>		
Current year (note 23)	5,118	6 933
Adjustments in respect of prior years	12	70
	5,130	7 003
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences (note 24)	4,214	25
Total income tax expense	916	7 028

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

33. Income tax expense (CONTINUED)

The accounting profit before taxation is reconciled to the tax base as follows:

	Tax base 2012 €'000	Tax at 19 % 2012 €'000	Tax base 2011 €'000	Tax at 19 % 2011 €'000
Profit before taxation	16 518	3 138	38 783	7 368
Tax non-deductible expenses				
Loans written off	1 836	349	222	42
Current year allowances for impairment	18 036	3 427	3 868	735
Other	5 318	1 010	8 704	1 654
Non-taxable income				
Non-taxable income from securities	(989)	(188)	(1 547)	(294)
Release of impairment losses on loans	(6 804)	(1 293)	(4 568)	(868)
Provisions	(5 149)	(978)	(7 423)	(1 410)
Other	(1 828)	(347)	(1 547)	(294)
		5 118		6 933
Adjustments in respect of previous year	61	12	368	70
Deferred tax		5 130		7 003
		(4 214)		25
Total tax expense		916		7 028
Effective tax rate		5,55 %		18,12 %

	2012			2011		
	Before tax €'000	Tax benefit €'000	Net of tax €'000	Before tax €'000	Tax benefit €'000	Net of tax €'000
Cash flow hedges	(78)	18	(60)	(1 339)	254	(1 085)
Available-for-sale- assets	26 802	(4 958)	21 844	(29 513)	5 608	(23 905)
	26 724	(4 940)	21 784	(30 852)	5 862	(24 990)

34. Earnings per share

Basic

Basic earnings per share is calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary

shares in issue during the year, excluding the average number of any ordinary shares purchased by the Bank and held as treasury shares.

	2012	2011
Profit attributable to shareholders (€'000)	15 602	31 755
Weighted average number of ordinary shares in issue	38 353 859	38 353 859
Basic earnings per share (expressed in € per share)	0,41	0,83

Diluted

There were no dilutive factors during either year.

35. Profit before changes in operating assets and liabilities

	2012 €'000	2011 €'000
Profit before taxation	16 518	38 783
Adjustments for non-cash items:		
Depreciation	4 553	5 172
Amortisation	3 846	3 666
Loss on disposal of property and equipment	223	74
(Net release of)/impairment losses on loans	(3 054)	12 599
(Net release of)/impairment losses on property and equipment	(1 364)	333
Net release of impairment losses on intangible assets	–	–
Impairment losses on other assets	116	55
Creation/ (release) of provisions	19 403	(1 254)
Net profit on available-for-sale assets transferred to profit or loss	(2 274)	(1 806)
Net profit on cash-flow hedge transferred to profit or loss	–	(486)
	37 967	57 136
Net cash from/(used in) operating activities includes the following cash flows:		
Interest received	122 789	143 425
Interest paid	(55 916)	(38 062)
	66 873	105 363

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

36. Lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2012 €'000	2011 €'000
Less than one year	1 076	1 905
	1 076	1 905

The Bank leases cars and equipment under operating leases.

37. Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by UniCredit Bank Austria AG, Vienna (incorporated in Austria), which owned 99.0 % of the ordinary shares at 31 December 2012 (2011: UniCredit Bank Austria AG, Vienna 99.0 %).

In the normal course of business, the Bank is engaged in transactions with related parties. These transactions, which include the taking and placing of deposits, loans and foreign currency operations are conducted on an arm's length basis.

(a) Shareholders

Amounts due from and to the majority shareholder, UniCredit Bank Austria AG, Vienna were as follows:

	2012 €'000	2011 €'000
Assets		
Loans and advances to banks	5 666	4 926
Liabilities		
Deposits by banks	220 494	392 123
Loans received	20 000	50 128
<i>Transactions during the year were as follows:</i>		
Interest income	76	95
Interest expense	(9 844)	(14 350)
Fee and commission income	542	459
Fee and commission expense	(1 505)	(742)

37. Related party transactions (CONTINUED)

(b) Enterprises related to the ultimate shareholder of the Bank

Amounts due from and to companies related to the ultimate shareholder UniCredito Italiano were as follows:

	2012 €'000	2011 €'000
Assets		
Loans and advances to banks	5 716	2 569
Loans and advances to customers	38 995	58 129
Liabilities		
Deposits by banks	9 965	14 268
Customer accounts	3 538	2 914
<i>Transactions during the year were as follows:</i>		
Interest income	2 098	3 375
Interest expense	(172)	(78)
Fee and commission income	832	938
Fee and commission expense	(75)	(624)

(c) Key management personnel

Amounts due from and to directors, senior management or close relatives or companies in which they have a substantial interest, of the Bank were as follows:

	2012 €'000	2011 €'000
Assets		
Loans and advances to customers	490	680
Liabilities		
Customer accounts	941	1 003
<i>Transactions during the year were as follows:</i>		
Interest income	31	36
Interest expense	(14)	(12)
Fee and commission income	3	4

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

37. Related party transactions (CONTINUED)

Interest rates charged on loans are standard rates that would be charged in an arm's length transaction. Mortgages and loans are secured by property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

During the period, the Bank did not record impairment losses for loans and advances provided to related parties and no specific allowances have been made for impairment losses on loans and advances to related parties.

Key management personnel compensation for the period comprised:

	2012 €'000	2011 €'000
Management Board	993	805
Senior Managers	2,196	1 927
Supervisory Board	12	12
	3,201	2 744

Shortly before end of the year 2012 the number of members in the Management Board decreased (from five to four members). In addition to the salaries, the Bank also provides non-cash benefits to directors

and executive officers and contributes to a supplementary annuity insurance plan (see note 39).

38. Custodial services

The Bank administers securities and other valuables totalling € 3.509 million (2011: € 2.875 million), which have been received from customers into the Bank's custody.

39. Supplementary retirement annuity insurance plan

Since 1998, the Bank has participated in a supplementary retirement annuity insurance plan for its employees. Supplementary retirement annuity insurance is voluntary and is based on the contractual relationship between employee, employer and the supplementary retirement annuity insurance plan.

Contributions for both the employee and the Bank are fixed and defined in the plan.

For the year ended 31 December 2012, the Bank paid € 66 thousand (2011: € 65 thousand) and employees paid € 105 thousand (2011: € 108 thousand) under this plan.

40. Fair values and accounting classification

Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The carrying amounts and estimated fair values of the Bank's financial assets and liabilities at 31 December 2012 were as follows:

		Trading €'000	Held to maturity €'000	Loans and receivables €'000	Available for sale €'000	Other amortized cost €'000	Carrying value €'000	Fair value €'000
Financial assets								
Cash and cash equivalents	7	–	–	366 556	–	–	366 556	366 566
Trading assets	9	54 940	–	–	–	–	54 940	54 940
Derivative assets held for risk management	10	3 182	–	–	–	–	3 182	3 182
Loans and advances to banks	11	–	–	118 204	–	–	118 204	118 033
Loans and advances to customers	12	–	–	2 913 952	–	–	2 913 952	2 654 936
Investment securities	14	–	71 900	–	436 426	–	508 326	508 435
Measured at fair value		–	–	–	436 426	–	436 426	436 426
Measured at amortised cost		–	71 900	–	–	–	71 900	72 009
Financial liabilities								
Trading liabilities	9	42 310	–	–	–	–	42 310	42 310
Derivative liabilities held for risk management	10	34 071	–	–	–	–	34 071	34 071
Deposits by banks	18	–	–	–	–	357 922	357 922	354 625
Customer accounts	19	–	–	–	–	2 749 999	2 749 999	2 732 423
Loans received	20	–	–	–	–	249 291	249 291	243 268
Debt securities issued	21	–	–	–	–	108 515	108 515	105 678

Notes to the financial statements

Year ended 31 December 2012 (CONTINUED)

40. Fair values and accounting classification (CONTINUED)

The carrying amounts and estimated fair values of the Bank's financial assets and liabilities at 31 December 2011 were as follows:

		Trading €'000	Held to maturity €'000	Loans and receivables €'000	Available for sale €'000	Other amortized cost €'000	Carrying value €'000	Fair value €'000
Financial assets								
Cash and cash equivalents	7	–	–	191 236	–	–	191 236	191 236
Trading assets	9	56 888	–	–	–	–	56 888	56 888
Derivative assets held for risk management	10	1 789	–	–	–	–	1 789	1 789
Loans and advances to banks	11	–	–	23 314	–	–	23 314	23 072
Loans and advances to customers	12	–	–	2 953 601	–	–	2 953 601	2 667 692
Investment securities	14	–	122 421	–	436 185	–	558 606	556 498
Measured at fair value		–	–	–	436 185	–	436 185	436 185
Measured at amortised cost		–	122 421	–	–	–	122 421	120 313
Financial liabilities								
Trading liabilities	9	45 119	–	–	–	–	45 119	45 119
Derivative liabilities held for risk management	10	21 159	–	–	–	–	21 159	21 159
Deposits by banks	18	–	–	–	–	540 025	540 025	518 407
Customer accounts	19	–	–	–	–	2 389 619	2 389 619	2 371 140
Loans received	20	–	–	–	–	291 917	291 917	269 720
Debt securities issued	21	–	–	–	–	116 210	116 210	106 843

The following methods and assumptions were used in estimating the fair values of the Bank's financial assets and liabilities:

Trading assets and derivative assets held for risk management

The fair values of trading assets and derivative assets held for risk management are calculated using quoted market prices or theoretical prices determined by discounted cash flows. Fair value is calculated by discounting future cash flows by reference to the interbank interest rate for the relevant maturity period.

Loans and advances to banks

The fair value of current accounts with other banks approximates book value. For amounts with a remaining maturity of less than three months, it is also reasonable to use book value as an approximation of fair value. The fair values of other loans and advances to banks are calculated by discounting the future cash flows using current interbank rates.

Loans and advances to customers

Loans and advances are stated net of allowances for impairment. For loans and advances to customers with a remaining maturity of less than three months, it is reasonable to use book value as an approximation of fair value. The fair values of other loans and advances to customers are calculated by discounting the future cash flows using current market rates.

Certain loans and advances to customers shown within loans and receivables are designated in qualifying fair value interest rate hedging relationships (2012: € 0 thousand; 2011: € 1,605 thousand) and are stated at fair value with respect to the hedged interest rate.

Investment securities

The fair values of the investment securities are calculated by discounting future cash flows at market rates.

40. Fair values and accounting classification (CONTINUED)

Trading liabilities and derivative liabilities held for risk management

The fair values of trading liabilities and derivative liabilities held for risk management are calculated using quoted market prices or theoretical prices determined by the present value method. Fair value is calculated by discounting future cash flows by reference to the interbank interest rate for the relevant maturity period.

Deposits by banks

The fair value of current accounts with other banks approximates to book value. For other amounts owed to banks with a remaining maturity of less than three months, it is also reasonable to use book value as an approximation of fair value. The fair values of other deposits by banks are calculated by discounting the future cash flows using current interbank rates.

Customer accounts

The fair values of current accounts and term deposits with a remaining maturity of less than three months approximate their carrying amounts. The fair values of other customer accounts are calculated by discounting the future cash flows using current deposit rates.

Loans received

The fair values of loans received are calculated by discounting the future cash flows using current interbank rates.

Debt securities issued

The fair values of debt securities issued are calculated by discounting the future cash flows using current interbank rates.

41. Subsequent events

Based on a Group decision, the Bank plans to merge with UniCredit Bank Czech Republic, a.s in 2013. Both entities are currently subsidiaries of UniCredit Bank Austria AG. The Bank would be wound up without liquidation and UniCredit Bank Czech Republic would be the successor company. The decisive date for accounting and corporate income tax purposes would be 1 July 2013. Legally the merger shall be effective as at 1 December 2013. The merged entity would conduct

its business in Slovakia via its branch registered in the Commercial Register. The plan has not yet been formally approved by the General Meeting of Shareholders.

The Bank has filed a request with the NBS for Merger Prior-Approval in 2012. The merger has no impact on the financial statements prepared for the year ended 31 December 2012.

LISTENING



Making a difference from anywhere, even in a taxi

“ One day while driving my taxi, I struck up conversation with my passengers and found out they worked at UniCredit. I told them that I was one of their customers and that I owned a fleet of taxis. I also explained that I was trying to expand my business and had asked for a loan, but had yet to learn if my request was successful. The next day one of them called me to follow up with the information I needed. She cared about helping me solve my problem, and I could not have been more satisfied with her support. I thanked her and said that if she ever needed a taxi in Vienna - even to Milan - I would be there for her, as she was for me. ”

Taxi driver, customer of UniCredit Bank in Vienna



Declaration of corporate governance pursuant to Act No. 431/2002 Coll. on Accounting

A.
Pursuant to Act No. 431/2002 Coll. on Accounting, the corporate governance of UniCredit Bank Slovakia a.s. (hereinafter referred to as the "Company" or the "Bank") is governed by the Code of Corporate Governance in Slovakia, which is a part of the Stock Exchange Rules for Admission of Securities to the Regulated Market and which is publicly available at the web site of Burza cenných papierov Bratislava, a.s. (www.bcpb.sk). No deviations from the Code occurred in the Bank in 2012.

B.
Management activity of the Company is performed in the form of decisions taken by corporate bodies and decisions taken at individual levels of management which are in line with the Articles of Association, internal regulations of the Company, generally binding regulations and strategic annual plans, and which are subject to internal control.

The levels of management, structured in organizational units, determine the scope of the subject-matter applicability and personal binding nature of individual types of decisions in managing the activity of the Company.

The highest rank in the Bank's hierarchy is occupied by the Management Board, which is the authorized representative of the Company and the top level of management. Other levels of management include:

- a) CEO;
- b) division directors;
- c) department managers;
- d) and the lowest level of management is represented by sub-department heads.

The Internal Audit Division and the Risk Management Division are independent Competence Lines. Furthermore the Director of the Internal Control and Internal Audit Division directly reports to the Supervisory Board via Audit Committee.

The managers at each level are responsible for design, implementation and efficiency of the internal control system.

The internal control system is a set of rules, processes and organizational structures aimed at compliance with the Company's strategy and accomplishment of the following objectives:

- a) economy and efficiency of processes and procedures;
- b) protection of all property of the Bank;
- c) reliability and integrity of all information;
- d) compliance with laws, instructions and decrees of the National Bank of Slovakia;

e) compliance with Group guidelines and policies as well as with internal regulations and plans.

Managers at all levels are responsible for balancing the profit of the Company against the risk knowingly assumed, whose balancing must be in line with the financial position of the Company. Responsibility and powers of the managers are defined in the Organisation Rules of the Company.

Information about management methods is provided in the financial statements.

C.
The internal control systems of the Bank are designed and operated in a manner to support the identification, assessment and management of risks affecting the Bank and the business environment in which it operates. As such, they are subject to continuous review in the case of a change in circumstances and origination of new risks.

The following are the main features of the internal control system:
The written principles and procedures determining the lines of responsibility and delegation of powers, the determination of main regulations and comprehensive reporting and analyses in accordance with the approved standards and budgets.

Risk minimization by attempting to provide for implementation of the appropriate infrastructure, regulations, systems and people within the entire scope of the business. The main principles applied in the management of risks include the segregation of duties, approval of transactions, monitoring, financial and management reporting.

Alignment to and efficiency of the internal control systems is warranted through management inspections, internal audit inspections, regular reporting to the Audit Committee and regular meetings with external auditors.

The directors are responsible for the internal control system of the Bank and for regular inspection of its efficiency.

Main features of the risk management system:
The risk management system has been developed by UniCredit Bank Slovakia a. s. in a manner to meet the requirements of the Directive 2006/48/EC of the European Parliament and of the Council of June 14, 2006, relating to the taking up and pursuit of the business of credit institutions, Act No. 483/2001 Coll. on Banks, as well as of the applicable decrees of the National Bank of Slovakia.

The objective of the Bank's risk management system is to:

- develop it in a manner to be in line with the set business objectives of the Bank as well as with its risk appetite,
- set up a system for the organization of business transactions in such a manner as to be in line with the risk profile of such transactions,
- create an adequate system for assigning powers and responsibilities,
- have available an effective system for reporting – reporting system,
- have available an effective risk control system.

The Management Board of the Bank is responsible for the implementation of three independent functions, which represent an effective system of internal control in the area of risk. These functions include:

- a risk control function which ensures compliance with risk management policies,
- a compliance function which identifies and assesses the compliance risk,
- an internal audit function, which is an instrument used by the managing authority to ensure that the quality of the risk control function is reasonable.

According to Article 9, Paragraph 9.16 of the Articles of Association of the Company, the Supervisory Board has established an advisory committee for auditing – the Audit Committee, and approved its Statute. The Audit Committee is made up of three Supervisory Board members. The responsibilities of the Audit Committee are set out in its Statute. At the same time, the Audit Committee may give an order to carry out inspections and special audits of banking activity, of other sub-departments/units of the Bank and its subsidiaries. The Audit Committee may also request evaluation of the correctness of bank-to-bank transactions and other transactions which represent, directly or indirectly, a conflict of interests.

The Supervisory Board shall supervise the exercise of powers by the Management Board and the conduct of the Company's business activities. Meetings of the Supervisory Board take place when needed, however, at least once in a quarter. In 2012, 5 ordinary meetings of the Supervisory Board took place.

The Supervisory Board shall arrange for and perform such duties as are vested to its authority by the generally binding legal regulations and these Articles of Association, in particular:

- a) to stipulate the exact number of the Management Board members, to elect and remove members of the Management Board, to elect the Chairman and the Vice-Chairman of the Management Board from its members, to approve the rules of remuneration of the members of the Management Board, to take decisions concerning their bonuses and to approve agreements with members of the Management Board concerning their offices;

- b) to approve the Statute of the Internal Control and Internal Audit Unit of the Company;
- c) to supervise the compliance and implementation of the Holding Company Guidelines;
- d) to be responsible for the performance of duties which are vested to the authority of the Supervisory Board by the Holding Company Guidelines;
- e) to grant approval of the audit of the Company internal control system by the Internal Control and Internal Audit Unit of the Holding Company;
- f) to approve the Rules of Procedure of the Supervisory Board and any amendments thereof;
- g) to approve the Rules of Procedure of the Management Board and any amendments thereof;
- h) to approve annual and long-term business, financial and strategic plans of the Company prepared by the Management Board and to review the fulfilment thereof;
- i) to approve capital participation of the Company in other companies, including any disposal of such capital participation of the Company;
- j) to approve establishment and closure of any branches and organizational units of the Company which are subject to registration at the Commercial Register pursuant to the applicable provisions of the Commercial Code;
- k) to approve the concept of the Bank's internal capital adequacy assessment system;
- l) to inspect accounting books and records of the Company related to its business activities;
- m) to review compliance of the accounting books of the Company with legal regulations and the Articles of Association;
- n) to review the ordinary individual and extraordinary individual financial statements, proposals of the Management Board concerning the distribution of profit or the settlement of loss, reports of the Management Board prior to their submission to the General Meeting and to submit to the General Meeting its opinion;
- o) to convene meetings of the Management Board and the General Meetings if the interests of the Company so require;
- p) to inform the General Meeting on results of its inspection activities and to propose to the General Meeting reasonable measures to be taken by the Company;
- q) to give prior approval for selection of external auditors of the Company;
- r) to give prior approval for the appointment and removal of the CEO and General Manager of the Company
- s) to give prior approval for the appointment and removal of the holders of a special Power of Attorney (prokurista) of the Company;
- t) to give prior approval for the appointment and removal of the Head of the Internal Audit Unit;

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- u) approves the Rules of Procedure of the Compensation Committee;
- v) to take decisions in other matters which are vested to the powers and authority of the Supervisory Board by legal regulations or these Articles of Association.

The Supervisory Board shall be entitled to request that the Internal Audit Division perform any internal inspection in the extent specified by the Supervisory Board.

The Supervisory Board shall be composed of 9 (nine) members who shall be elected for a term of office of 3 (three) years. Re-election of the members of the Supervisory Board is permitted. 6 (six) members of the Supervisory Board shall be elected and removed by the General Meeting. Each shareholder of the Company as well as each member of the Management Board shall be entitled to propose candidates for members of the Supervisory Board elected and removed by the General Meeting as well as to propose the members of the Supervisory Board to be removed. 3 (three) members of the Supervisory Board shall be elected and removed by the employees of the Company. The Election Procedures concerning the election and removal of the members of the Supervisory Board and its amendments shall be prepared and approved by the trade union.

The Supervisory Board may further establish committees from its members. One such committee is the Remuneration Committee, which shall define the principles and approve remuneration of the Management Board members.

D.

The General Meeting is the supreme body of the Company. The Annual General Meeting of shareholders took place on April 23, 2012. Shareholders approved annual individual financial statements and a motion to distribute profit, approved the annual report and the external auditor for 2012 and elected new members of the Supervisory Board.

The Management Board shall be obliged to convene the Annual General Meeting so that it is held within 4 (four) months of the end of the previous calendar year. The Management Board shall convene an Extraordinary General Meeting if so required by legal regulations or these Articles of Association. The Supervisory Board may convene an Extraordinary General Meeting if the Company's interest requires so or when the Articles of Association stipulate so.

It is within the powers of the General Meeting to:

- a) approve the Articles of Association and its amendments;
- b) decide to increase or decrease the registered capital and the issue of bonds;

- c) elect and remove members of the Supervisory Board other than those who are elected and removed by the employees of the Company and to approve the rules for remuneration of the members of the Supervisory Board;
- d) approve ordinary individual financial statements, extraordinary individual financial statements, decisions concerning the distribution of profits or the losses settlement and determination of royalties;
- e) approve the Annual Report of the Company;
- f) approve external auditors of the Company;
- g) adopt decisions concerning the abolishment of the Company;
- h) resolve on division, merger, consolidation of the Company or on the sale of the enterprise or its part;
- i) acknowledge the Supervisory Board activity reports;
- j) resolve other matters which are reserved for the General Meeting by generally binding legal regulations, these Articles of Association or such matters which the General Meeting itself reserves for its resolution.

The shareholder of the Company shall be entitled to participate in the management of the Company, shall have the right to profits of the Company (right to a dividend), which are to be distributed among the shareholders by virtue of a decision of the General Meeting taken with reference to the business results of the Company and the right to share the liquidation balance upon the abolishment of the Company with liquidation. The shareholder principally exercises the right to participate in the management of the Company by voting at the General Meeting, while it is obliged to adhere to the organization measures governing the organization of the General Meeting. Each shareholder shall be entitled to vote at the General Meeting of the Company, to request information and explanations concerning matters of the Company or parties controlled by the Company, which are related to the agenda of the General Meeting and to make proposals at the General Meeting. The shareholder is entitled to perform its rights at the General Meeting in person or through an authorized representation holding a written power of attorney (the "proxy holder"). A member of the Supervisory Board may not act as the proxy holder.

The shareholder shall be entitled to raise its proposals at the General Meeting for a duration not exceeding 5 (five) minutes. In the event that the speech lasts longer than 5 (five) minutes, the Chairman of the General Meeting may ask the shareholder to make a proposal for the resolution on which the shareholder requests to vote, or to formulate its request for information or for an explanation. If the shareholder does not satisfy such request of the Chairman of the General Meeting, the Chairman of the General Meeting may terminate the shareholder's speech and such shareholder is then entitled to send the part of the speech which could not be presented in writing to the Management

Board. In the event that the shareholder's request for information or an explanation does not relate to the respective item on the agenda of the General Meeting that is being discussed, the General Meeting may ignore it.

The shareholder of the Company shall be entitled to inspect the minutes from the Supervisory Board meetings. The request of the shareholder for access to the minutes must be in writing and duly delivered to the Company and must contain the identification of the respective item of the agenda and the meeting of the Supervisory Board for which the access is required; such request must be dated and signed by the shareholder. The Company may refuse access to the minutes from the Supervisory Board meetings, if such access would be an infringement of the generally binding legal regulations or supply of the information could harm the Company. Any information provided by the Company to the shareholder must remain confidential.

E.

The Management Board carried out its activity in 2012 with a composition of five members; since November 2012 with a composition of four members. Meetings of the Management Board take place every two weeks. The Management Board met at 25 ordinary meetings last year.

Advisory bodies of the Management Board are special-purpose groups of employees responsible for the evaluation of problems and tasks in the area defined by the Charter of the advisory body. The advisory bodies of the Management Board include:

Loss Committee of the Head Office of UniCredit Bank Slovakia a. s.

The Loss Committee discusses specified loss cases incurred by the Bank, presents opinions on loss events based on submission of the relevant documentation, assesses origin of damage and submits proposals for settlement of damage incurred. The Loss Committee has 9 members.

Asset & Liability Committee (ALCO)

In compliance with the need to achieve financial and regulatory objectives of the Bank, the ALCO Committee adopts decisions concerning the subject and principles of asset and liability management and the plan and budget of the Bank and proposes asset and liability management, while taking into account the previous and anticipated development of balance items. The ALCO has 8 members.

Occupational Health and Safety Committee of UniCredit Bank Slovakia a. s.

The task of the Occupational Health and Safety Committee is to enforce observance of generally binding regulations, observance of the Articles

of Association of the Company and resolutions of the Management Board related to occupational health and safety; to assess the condition of occupational health in the Bank, observance of obligations in the area of occupational health and safety; to propose to the Management Board measures in the area of management and control of the condition of occupational safety; and to regularly evaluate the condition of the working environment and working conditions for employees. The Committee has 7 members.

Security Committee of UniCredit Bank Slovakia a. s.

The Security Committee, which has 3 members, has competences in the area of evaluating regulations of the current condition of the Bank's security, assessing security incidents and evaluating results of security inspections within the Bank, evaluating the condition of projects relating to security and performing other activities relating to security.

Committee for Work Accident Compensations of UniCredit Bank Slovakia a. s.

The Committee for Work Accident Compensations has 5 members and objectively assesses every job-related injury in terms of liability for its occurrence, establishes the cause of the job-related injury and proposes the means and amount of compensation for the job-related injury.

Liquidation Committee of UniCredit Bank Slovakia a. s.

The Liquidation Committee discusses all presented proposals for liquidation of the Bank's assets and submits to the Bank's Management Board proposals for performance of asset liquidation, discusses all motions concerning liquidation of small tangible and intangible assets, long-term tangible and intangible assets of the Bank and inventories recorded in the Bank. The Liquidation Committee has 5 members.

Personal Data Protection Committee

The Personal Data Protection Committee enforces observance of generally binding regulations, the Articles of Association of the Company and resolutions of the Management Board related to issues of personal data protection, and observance of personal data protection principles pursuant to internal regulations of the Bank; regularly examines the activity of persons performing supervision over personal data protection in the Bank; and proposes measures in the field of prevention against unauthorized manipulation of personal data. The Committee has 12 members.

Operational Risk Committee of UniCredit Bank Slovakia a. s.

The task of the Operational Risk Committee is to discuss proposals of policy, rules and methodology for operational risk management and insurance; propose and monitor limits; monitor risk exposures; monitor

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procedures proposed to mitigate risk; assess significant operational risk events; discuss operational risk reports; and to act as a steering committee for operational risk related projects. The Committee has 8 members.

F.

The shareholder's equity is divided into **38,353,859** (to wit: thirty-eight million three hundred and fifty-three thousand eight hundred and fifty-nine) pieces of registered shares in book entry form, while the nominal value of one share is EUR 6.14 (to wit: six euros and fourteen cents). The Company's shares are not admitted for trading on the regulated market.

No special rights or obligations are attached to the issued shares.

Transferability of shares is not restricted.

Qualified interest in the registered capital of UniCredit Bank Slovakia a. s. is held by UniCredit Bank Austria AG, seated in Schottengasse 6-8, 1010 Vienna, Austria.

With regard to the fact that no special rights or obligations are attached to the issued shares, no shareholder is vested with special rights of control.

The Company issued no employee shares.

The voting rights attached to the Company's shares are not restricted.

The Company is not aware of any agreements among the securities holders which might restrict transferability of both the securities and the voting rights.

The members of the Management Board shall be elected and removed by the Supervisory Board.

When a member of the Management Board is elected or removed, each nominee is subject to a separate vote. If there are more nominees, the nominees awarded the highest number of votes shall become the members of the Management Board. If the prior approval of the National Bank of Slovakia to the election or the removal of the member of the Management Board must be obtained pursuant to legal regulations, the Supervisory Board may decide on the election or the removal only if such approval is granted, otherwise the effectiveness of the decision of the Supervisory Board will be conditional upon acquiring such approval.

If the Chairman of the Management Board, Vice-Chairman of the Management Board or a member of the Management Board resigns, is removed or the term of his or her office is terminated as a result of his or her death or another reason, the Supervisory Board shall elect, within 3 (three) months, a new member or designate a new Chairman or Vice-Chairman. The term of office of such a newly elected member

of the Management Board shall expire on the date of expiration of the term of the Management Board, whose term of office was being served at the time of the election of the new member.

If a member of the Management Board resigns from office, the resignation on the membership of the Management Board is effective on the day of the first Supervisory Board meeting following delivery of the written resignation notice; if a Management Board member resigns at the Supervisory Board meeting, the resignation is effective immediately. If, after delivery of the resignation notice on the membership in the Management Board or resignation at the Supervisory Board meeting, the Supervisory Board agrees with the member of the Management Board on a date of the termination of office, the office of the member of the Management Board shall terminate on such agreed date.

Any amendment of the Articles of Association is subject to a decision of the General Meeting and shall be approved by a two-third majority of votes of all shareholders. Such decision of the General Meeting shall be taken in the form of a notary deed.

The powers of the Management Board related to decision-making on the issuance of shares are governed by the provisions of Act No. 513/1991 Coll., the Commercial Code.

The Company entered into no agreements pursuant to Article 20, Paragraph 7(i) and (j) of the Act No. 431/2002 Coll. on Accounting.

The Bank does not carry out any activities hostile to the environment.

The Bank does not have any organizational units abroad.

Through its system for management of environment protection, health protection and work safety, the Bank creates safe and health-friendly environment for its employees, demonstrates its maximum effort in the area of environment protection management when executing bank activities and related activities and does not carry out any activities which would negatively influence the environment.

After a successful implementation of environmental management (EMS) into activities of the bank and a certification according to STN ISO 14001 in 2010, the bank confirmed its ecological commitment also in 2011 when it implemented a certified system of energy management according to the European technical standard EN 16001.

The Bank does not have any organizational units abroad.

The Bank has no research and development costs.



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